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CO-PARTNERSHIP AND  
PROFIT-SHARING

By ANEURIN WILLIAMS, M.A.

LONDON

WILLIAMS & NORGATE

HENRY HOLT & Co., NEW YORK

CANADA : WM. BRIGGS, TORONTO

INDIA : R. & T. WASHBOURNE, LTD.





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NEW YORK  
HENRY HOLT AND COMPANY



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BY

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LONDON  
WILLIAMS AND NORGATE

RICHARD CLAY & SONS, LIMITED,  
BRUNSWICK SQUARE, STAMFORD STREET, S.E.  
AND LINGAY, SUFFOLK

## PREFACE

I HAVE written this little book in the hope that it may give a useful general idea of a movement to which I have devoted a great part of my time for more than twenty years. It is, I believe, a movement destined to do in the industrial world, what the introduction of constitutional rights has done in government—I mean, to transform autocracy and monopoly into democracy, gradually, peacefully, and with profit in the long-run to all concerned. If Co-partnership has in it any such possibility it is assuredly important that it should be understood by both employers and employed, and by all those who concern themselves with progress. I have given instances from England, France, and the United States: I might have given others of importance from Germany and Holland. So far as England is concerned it was by working men themselves, in their own organisations, that co-partnership was first made

a practical success. I ought perhaps to have given more prominence to the story of their Productive Societies, and emphasised more strongly their growing commercial importance—though the magnitude of recent profit-sharing and co-partnership, springing from the employer's side, may seem to dwarf them.

My acknowledgments are due to many authors, and my thanks to many friends. In particular to the Maison Leclaire and to several American and English firms which I have mentioned, for kindly sending me details as to their own businesses; to Mr. N. O. Nelson for much valuable information and comment; to Professor Charles Gide for information as to the proposals of the French Government; and to Madame Dallet-Moret for the latest facts and figures as to the Familistère. For all faults and errors I must bear the sole responsibility. It must not, however, be assumed that I approve everything I describe. To have criticised every important point would have taken too much space.

*August, 1913.*

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# CO-PARTNERSHIP AND PROFIT-SHARING

## CHAPTER I

### INTRODUCTORY

So long as land and capital are almost exclusively in the hands of the few, and labour is paid by wages only, the progress of the working classes, or rather the improvement of their material condition, cannot be anything but slow. That is the economic proposition on which this little book is based. I think all believers in the orthodox political economy — of whom, in the main, I rank myself as one — should agree with this statement; for political economy surely demonstrates that so long as men continue to be animated mainly by competition in economic matters, and so long as land and capital are in few hands, rises in real wages can only be established as the value of the labour earning those wages rises,



*i. e.* as its efficiency rises either because the labourer is improved in himself, or because the machinery with which he works is improved. Put more broadly, political economy shows that natural causes determine the division of wealth among the different factors—land, labour, managing skill, and capital—necessary to production; and these natural causes change but slowly. Not only will ordinary believers in political economy accept my proposition, but I think that Socialists, meaning for the moment State Socialists, will accept it also, though, as to the ownership of capital, they will draw from it conclusions other than mine. I have said, “so long as land and capital are in few hands.” It is no part of the purpose of this book to deal with the ownership of land; but as to capital I shall try to show that it is possible, and highly desirable, to build up a system of industry under which the great mass of workers will not only have a direct interest in the profit of their own work, but be part owners of the capital with which it is carried on. This is what we mean by the Co-partnership of Labour.

While things go smoothly there are, as a rule, few to consider whether they are going

right, and to this general rule industrial relations are no exception. Yet it is important to know whether they are going right, without waiting for a crisis to come; for the material and moral well-being of all classes of our people, and therefore, of course, the greatness of our country, depend largely on the relations of capital and labour, and on the division between them of the produce of their industry. For three generations at least there have been voices crying that much was wrong in our industrial organisation; and that mere wage service, while producing no doubt great results in many ways, was producing also separation of classes, with irresponsibility and neglect, on the moral side; and on the material side unemployment, poverty, suffering and degeneracy. Among the many cures propounded by small groups, none has had more distinguished advocates than Co-partnership found in John Stuart Mill, Herbert Spencer, Alfred Marshall and George Jacob Holyoake. But the great majority of middle- and upper-class people have gone on either ignoring the whole question, or declaring that nothing was seriously wrong: at any rate nothing which could be put right by changes in our economic organisation, whatever might be done by the

spread of religion and education, or even by purely political changes.

Recently, however, first one country and then another has gone through a time of great unrest among the organised and half-organised forces of labour; and the public—in France, in England, and other countries—seem suddenly to have wakened to the consciousness that there is something very wrong and that, in the popular phrase, something must be done. This was markedly so in France four years ago, and was no less so in England during 1912. Thus it has happened that co-partnership has obtained much more notice of late, and that there are many signs of its practical operations being somewhat rapidly extended. The object of this book, therefore, is to set forth what co-partnership is, and what it has achieved and may achieve. Now the first element of co-partnership between employer and employed is the sharing of profits between them, and such profit-sharing is capable of being applied, and has been widely applied, without the other element, namely, the ownership of part of the capital by the workman. Indeed by many profit-sharing is regarded as a simpler form of co-partnership, capable under ordinary

circumstances of giving the same results with fewer difficulties. Profit-sharing, therefore, must be examined not only as an element in co-partnership, but also as an independent system.

If my readers will, in imagination, accompany me to Leicester or Kettering, I can take them into four or five busy workshops, any one of which will give a good object lesson of one form—the purely working-class form—of co-partnership. They will find, for instance, a Boot Factory, not differing from other good boot factories in outward appearance, fitted with the usual up-to-date machinery, and working in the usual business-like way, though with better conditions, and perhaps shorter hours, than one would readily find elsewhere. They will probably notice a cheerful friendly air about the place, and on entering will learn that this is a workmen's co-partnership factory, owned and managed, almost wholly, by people of the working class, and largely by the workers in it. They will be told that it started in quite a small way, perhaps twenty years ago, with a small capital, contributed partly by the first workers in it, partly by a few outside sympathisers, mostly working people, and partly by a loan

from the Trade Union. These founders were, in almost all cases, trade unionists and members of the local co-operative store: to establish the new business they formed themselves into a Society, registered with limited liability under the Industrial and Provident Societies Act, and having for most purposes the characteristics of a small limited liability company. The total business of the society may reach twenty or thirty, or even fifty or a hundred thousand pounds per year, and it may be employing a hundred or two or three hundred people, or even more. Like an ordinary company it is ruled by a small committee of shareholders, elected by the whole body; but it differs greatly from an ordinary company in its way of dividing its profits. It first pays, of course, all expenses, and all interest on borrowed capital; then it pays 5 % on share capital; but after that the surplus is largely used in paying a dividend to labour, *i. e.* a percentage to each worker on the amount of his wages.

The Society, by dint of good work, grew and prospered, and had profits to divide; but these it did not pay to its workers in cash. It credited them to every man and woman as share capital. Thus the Society could never

become a body of small masters employing outside labour : its democratic character was secured. Outside shareholders were indeed welcomed, and Co-operative Stores — the Society's chief customers—were also welcomed as shareholders ; but above all every worker in the factory became and remained a citizen in industry by means of the sharing and capitalising of profit. This is not a sketch of any one co-partnership factory, but it is a type closely resembling a dozen or more which I could name.

Elsewhere we could see co-partnership working on a much larger scale, in many of the largest gas works—one of them, I think, the very largest in the world—managed not by workmen, enthusiastic for their own class, but by hard-headed business men, who are satisfied that the shareholders do not lose by it. Let me take one of these works as an instance. Every regular worker has a share of profit credited to him in proportion to the economy of production, and to the amount of his wages. By the accumulation and investment of this profit he becomes a shareholder, and, at the shareholders' meetings, he has a vote in proportion to his capital ; and he helps to elect the Directors. Thus co-partnership

gives the share in responsibility and control, which normally goes with shareholding. I do not mean by that a right to interfere in the details of management, any more than an ordinary shareholder has a right to do so in a joint stock company : I mean a voice in settling the general policy of the business, and in electing the Directors who are to carry out that policy.

These, then, are two types of co-partnership : one springing from the workers themselves; the other introduced into a business of commercial origin, in order to establish harmonious working, by setting the relations of capital and labour, and the distribution of the wealth produced by them, upon a better basis. In both we have peaceful working rarely, if ever, broken : we have the workers' earnings increased by a share of profit which does not fall upon cost, and therefore does not increase the price to the consumer, and above all we have the worker accumulating capital and thereby rapidly improving his status in industry and his material position. It is surely worth considering more fully what this peaceful system of industry is.

## CHAPTER II

### THE NATURE AND ORIGIN OF PROFIT- SHARING

WE have seen that profit-sharing between employer and employed is the first element in co-partnership, the other being the ownership of part of the capital by the workman. It is necessary to emphasise that without profit-sharing there can be no co-partnership, in the sense of that word which has been well established among students of industrial questions for the last twenty years or more. Such schemes, therefore, as those put forward in 1908 by the late Lord Furness, then Sir Christopher Furness, and from time to time, in slightly different forms, by other employers, although they have been described as co-partnership or co-partnery schemes, are not so in the proper sense. They invite the workers as small capitalists to become shareholders in the companies employing them, but they do not establish any sharing of profits between capital and labour. Under



Lord Furness' scheme, the workers were to subscribe for shares of a special class, which were to be paid for gradually by deductions of 5 % from their wages. These Employees' Shares were to bear a fixed interest of 4 %; they were also to share with ordinary shares at an equal rate in the profits remaining after the company had paid 5 % on ordinary Shares, and had provided for depreciation, development, and reserves. This proposal was, indeed, welcomed by many friends of co-partnership as a step in the right direction, but it was not co-partnership itself.

So among enterprises of a working-class origin, the majority of Co-operative Societies divide all their profits to their customers in proportion to their purchases. They remunerate the labour employed, whether that be members of the Society or of non-members, by wages only. From the labour point of view, therefore, they are not co-partnership. Again, there have been a large number of mills started in Oldham and elsewhere with workmen's money, but without any profit-sharing, simply dividing the profits as in an ordinary Limited Liability Company. These "working-class Limiteds" must be clearly distinguished from co-partnership.

While, on the one hand, you cannot have co-partnership without profit-sharing, on the other hand profit-sharing in itself does not constitute co-partnership. It is not in the full sense a partnership of capital and labour, although in the third quarter of the nineteenth century it was very usual to speak of profit-sharing as industrial partnership.

It is related of Robert Owen that, when a factory owner once said to him, "If my men liked, they could save me £10,000 a year by better work and the avoidance of waste," he replied, "Then why don't you pay them £5,000 a year to do it?" This saving of waste is the economic basis of profit-sharing, and the division between capital and labour of the gain so effected is usually, though not always, part of the arrangement. Here on the very threshold of the discussion some critics raise what they consider a fatal objection. They argue that it is unjust to workers, who have made certain savings by better and more careful work, that only a part of those savings should go to their benefit, while a substantial part goes into the pocket of the employer; he, they say, has made no greater effort or sacrifices than before. This criticism seems to assume that under the mere wage system,

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without profit-sharing, labour is already giving just and full value for its wages, although the work is being done in such a way as to leave a large margin of waste. But is it really possible to say whether labour is, or is not, giving just value for its wages? Some maintain that the labourer does not contract to give his best services, but only to give an average service, up to the usually accepted standard. If this is so, it is the greatest possible condemnation of the mere wage-service system; and surely an alternative system which does induce the worker to give his best services, thereby benefiting him and his employer at the same time, and increasing the national output of wealth, must have a great deal to be said for it, both from the moral and the material points of view. It is not to be supposed that the worker under profit-sharing necessarily works harder, in the sense of tiring himself more. It is a question of more intelligence and care, rather than of more effort; and it is not unlikely that owing to his interest in the work and its results he will be less, rather than more, tired at the end of the day.

The idea of saving waste illustrated by the anecdote I have quoted about Robert Owen

is, of course, fundamental in profit-sharing : it enters into every scheme of whatever form. It is, in fact, the ultimate basis which makes profit-sharing possible ; but it enters very differently into different schemes, and into the minds of different men. In one case, an employer says to his men quite plainly : “ I have hitherto made, say, 8 % on the capital invested in my business. There is, however, great room for the saving of waste, and if you will do it, I will give you a quarter, or the half, of anything earned above 8 %.” This is a purely business arrangement. It may be, like any other typically sound business contract, profitable to both sides, and the making of it confers no favour upon one side or the other, any more than the selling of a thousand ~~tons~~ of coal at a price which suits both parties. It must be confessed that this kind of profit-sharing does not usually appeal to the workmen.

In other cases the point at which profit-sharing is to begin is placed somewhat lower than the average dividend previously earned. For instance, in the celebrated profit-sharing firm of Clarke, Nicholls & Coombs, Manufacturing Confectioners, London, the point at which profit-sharing was to begin was deliber-

ately put 4 % below the dividend which the Company had paid for the two previous years. In making this arrangement the firm was giving strong evidence of its desire to benefit its workmen, and also of its faith that, although shareholders were apparently making an initial sacrifice, the results would be good enough to save them at any rate from any loss. A scheme on these lines is certainly much more acceptable to the ordinary workman.

Far removed from the mere business motive of profit-sharing is the attitude of certain employers who regard profit-sharing as a religious duty—part of their general duty to benefit their fellows; but here, also, the waste-saving is an essential factor. It alone makes it possible to carry out profit-sharing without such a sacrifice as would reduce the reward of capital to so low a point as to discourage business development, and so prevent the system ever growing. This view has been put into words, in reply to my request, by Mr. Theodore C. Taylor, M.P., the head of the profit-sharing and co-partnership firm of J. T. & J. Taylor, Limited, Batley, who says : “ In all things the spirit rather than the letter is of chief importance. The spirit will find the form; the form cannot produce the

spirit. Profit-sharing and Labour Co-partnership, to be fully efficient, must, on the employer's part, proceed from altruistic and not selfish motives. The natural soil for the growth of unselfishness is religion. The employer who really holds all men his brothers in Christ cannot be other than a profit-sharer at heart. 'He who loveth God loveth his brother also.' " There is no doubt that in this, and some other cases, the owner is deliberately accepting less in money reward than he might have had, in order that the workmen may have a good deal more, and that he may help to build up a better system.

Profit-sharing is defined as an "agreement, freely entered into, by which the employee receives a share, fixed in advance, of the profits" of the particular business which employs him. It is, therefore, something in addition to wages, whatever form wages may take. Men may be paid by time, or piece, task wages, collective piecework, or any of the other forms which wages take; but evidently none of these forms of wages can in themselves be properly called profit-sharing. Although they may be designed to stimulate the zeal and activity of the workers, they give the worker a remuneration which does

not depend upon the profit of the particular business which employs him.

Nevertheless, the term profit-sharing is often used loosely to include many forms of addition to ordinary wages; for instance, bonuses on increase in the quantity of work done, or on the improvement in its quality; or again, what are technically called gain-sharing or product-sharing. None of these, however, are profit-sharing in the proper sense of the word. If in ironworks the men receive a bonus on the weight produced, that is not profit-sharing, because there may be loss to the firm on the net result of the year's work, though the workmen have received payment for the extra weight produced. Again, if the bonus be not on the mere weight of iron produced, but on the quantity produced of a given high quality, that is not profit-sharing, for the same reason. Again, if a workman is employed on the basis that the standard time in which to do a given job is, say, ten hours, but that if he can do it in less, he shall be paid not only for the time he has worked, but for the whole or part of the time he has saved, that is, technically, gain-sharing. So it is if he is paid for part of the material he can save in doing a given

job. In all these cases there may be, for quite other reasons, no profit resulting to the business, or a profit to the business which fluctuates without any relation to the amount of bonus earned by the workmen. Again, if a fisherman is employed on the basis that he is to have a certain percentage of the total catch, in addition to a fixed wage, the proper technical term is product-sharing. Clearly, it is not profit-sharing, for if there is only a small catch, there may be no profit to the master of the boat, although the men he employs get their share of the catch. Finally, you may have a bonus depending, not upon the profit of the business as a whole, but on the economical working of the particular department in which the man is employed. The man may get a bonus, although the business as a whole may make a loss, and for that reason a system of this sort must be distinguished from strict profit-sharing : it is usefully described as departmental profit-sharing.

Even where there is a sum paid to labour which depends upon the profit of the business, that does not necessarily constitute profit-sharing in the full sense. If, for instance, the distribution is confined to a few of the leading



employees, it may be said to be profit-sharing for them, but it certainly does not constitute the business a profit-sharing business. When we say that profit-sharing is practised by a business, we mean that its benefits extend at least to a very substantial section of the workers. Again, the amount given to labour out of the profit may be an arbitrary sum depending upon the will of the employer. The employer may take something from his profits and give it to his employees as an addition to their wages, and may even in his own mind decide to make this something more when the profit is more, and less when the profit is less ; but if he has entered into no agreement with his workmen on the point it is not profit-sharing. He gives them a gratuity, which may take the form of a cash gift, or of a Sick Fund or Provident Fund, or better houses, schools, libraries and so forth, subsidised by the employer at his own will ; and we then have paternalism, or welfare institutions. One great employer, who did much for his workmen in this way, was in the habit of describing his system as Prosperity Sharing. However, if not strictly profit-sharing, it is clear that benefits drawn expressly out of profits, and varying more or

less in proportion to profits, and given to labour in return for past good service or as a stimulus to future good service, approach near to true profit-sharing. When given in cash or shares, they are sometimes called indeterminate profit-sharing.

These distinctions may seem pedantic, but when we consider that the benefit, over and above the wages, given to labour, may take any form from tipping to partnership, and that all these forms melt one into another by indistinguishable shades and differences, it is necessary to try and get clear ideas upon the use of various terms for various systems.

Profit-sharing in the widest and vaguest sense must, no doubt, be of immemorial antiquity, older perhaps than the wages system itself. The principle of profit-sharing in the strict sense was recognised by Turgot in 1775. It is said to have been practised by Lord Wallscourt upon his estate in Ireland about the year 1829, but the details of this experiment which survive do not give us much conception of it. It has been claimed that Lord Wallscourt learnt the plan from the Irish Owenite Community at Ralahine in 1831 or 1832. Though that community did

not, strictly speaking, practise profit-sharing—because there was no employer—it divided the profit of its farming among its members. So did the small body of labourers to whom in 1829 Mr. John Gurdon, of Assington Hall, Norfolk, let one of his farms and advanced capital without interest. In this last case, also, there was no employer, and therefore strictly no profit-sharing, but rather a kind of product-sharing.

For all practical purposes we must consider a Frenchman, Edme-Jean Leclair, as the father of profit-sharing. He was the son of a poor shoemaker : was born in 1801, and sent early to work in the fields. In 1818 he made his way to Paris, and became apprenticed to a house painter, in which position he suffered great hardship. In 1827, however, he was bold enough to set up for himself, and within seven years of doing so he held a leading position in the trade in Paris, and employed from sixty to eighty of the best workmen. In 1840 he made a calculation that by greater care each of his workmen (whom he was then employing merely at so much an hour) could save him sixty centimes a day by intelligence, activity, and a more zealous use of time; this sixty centimes was the then rate of pay for

one hour's work. Further, the same man could save twenty-five centimes a day by avoiding waste of materials and injury to tools. These savings would amount to 255 francs for each man in a year of 300 working days. Leclaire proceeded to calculate that the total for a business employing on an average 300 men would amount to 76,500 francs. Presumably 300 was about the number he was himself then employing.

While Leclaire was a severe disciplinarian, he had from the first been in the habit of giving his workmen gratuities and special rewards over and above their wages. In 1838 he induced his permanent hands to establish a Mutual Benefit Society to provide for cases of sickness; this constituted, as he said, a kernel (*noyau*) of good workmen, and became the foundation of the system he established. He had long pondered how he might benefit his workmen in their old age, being much impressed by the knowledge that if he should retire and sell his business, the older men who had helped him to build it up would probably be dismissed by the new master, and find it hard to get work elsewhere.

It was with this end in view that he evolved his profit-sharing scheme. In June 1840 he

called together his workmen and explained it to them : the men, however, were not ready to receive it. In 1841 he reduced the hours of labour from eleven to ten per day, and made certain changes of organisation preparatory to the introduction of profit-sharing. In February 1842 he finally announced his scheme. Even after the last two years of education and preparation, it was received with some suspicion; and he was accused by a workmen's newspaper of manœuvring to reduce wages. However, on February 12, 1843, he assembled the forty-four workmen who were entitled to share the profits of the preceding year, and flung down upon the table a bag containing 12,266 francs, their share of the profits of the preceding year. Opening the bag he paid each man his share, amounting to about £11 per man. This at length convinced them, and Leclaire soon found the effect upon their zeal fully up to his expectations : he was soon able to give a large part of his time to other matters, because the business now went with so much less supervision. For the year 1843 eighty-two men were entitled to share in the profit, and the amount falling to be divided among them exceeded 19,700 francs, more

than half as much again as in the previous year. During the next four years the number of those entitled to share grew to ninety-eight, and the amount to be divided among them to 20,754 francs.

Only his permanent workmen were entitled to participate : these were the *noyau* or kernel, the members of the Mutual Provident Society. As the number of his employees at this time was apparently about 300, it will be seen that a comparatively small proportion, namely, 15 % of the men, shared the profits in the first year. This rapidly rose, and was nearly 33 % in 1847, but still, it was only Leclaire's permanent hands who shared in the profits until the year 1870. In that year, stung by the remark of a Socialist, "your house is nothing but a box of little masters, who make a profit out of the others," Leclaire induced the Mutual Provident Society to agree to the extension of profit-sharing to the whole of those employed. This was not a new project with him : he had broached the idea of general profit-sharing as early as 1842, though he had never before put it in practice. Since 1870 every workman employed by the firm, even for a single day, has been entitled to a share of the profits of the business, in pro-

portion to his wages for the time he was employed. In the first year of the new departure, 758 men were entitled to share; in 1871, 1038; in 1880, 1125; and in 1912, 1277.

In many profit-sharing concerns the amount of profit paid to labour, reckoned as a percentage on the wages, is small, say 4 % or 5 % or even less. In Leclaire's business it has always been large. From 1870 to 1886 it was never less than 12 %; it once reached 24 %, and taking all those years together it averaged  $17\frac{1}{2}$  %. In the year 1912 it was  $19\frac{3}{4}$  %, and in recent years it has been about that figure.

The profit-sharing established by Leclaire in 1842 was a simple arrangement between himself as an individual private employer and his workmen, but from this has grown a permanent and very complete organisation. Until 1852, he was sole owner of the business, but in that year he took as partner M. Alfred Dufournaux, a son of one of his foremen, and trained in the house. In 1854 the Mutual Provident Society was, so to speak, put upon the profits of the business. Originally it had depended upon the subscriptions of its members; henceforth, the whole funds of the

Society were to be freely given by the business at each yearly balancing of profit and loss. These gifts, however, were at that time wholly dependent upon Leclaire's goodwill. In 1860 he had to use this power in order to compel the next step in organisation, arguments and persuasions having failed. The Mutual Provident Society was by its constitution formed for fifteen years only; in 1854 it was re-formed for another fifteen years. This second term of life was, therefore, due to end in 1869, and then the surplus of its funds would be shared out among the members. Leclaire insisted on the society being made permanent, the sharing out being abolished, and retiring pensions for the members substituted. In 1863 the society was legally incorporated, and at the same time it was made a perpetual limited partner or *commanditaire* in the business of *Leclaire et Compagnie*. Leclaire and his partner retained (according to the French law), unlimited liability for the debts of the business, but the society assumed limited liability only.

The final step in the organisation was taken in 1869, when the business itself was, by a Notarial Act, given a permanent legal individuality, such as the Mutual Provident



Society had already enjoyed for about six years. From this date Leclaire took no profit from the business, but only the 5 % interest on his capital. Wishing that his organisation should learn to get on without him, he had already, in 1865, retired from Paris to a country home; and there in 1872 he died.

The constitution has been in some small points developed since 1869, but in essentials it is unchanged. There are two partners in the business who have unlimited liability; and there is one, namely, the Mutual Provident Society, with limited liability. The capital was at first 400,000 francs, but in 1890 this was increased to 800,000, of which 500,000 francs belongs to the Mutual Provident Society and 300,000 francs to the managing, that is the unlimited, partners. Besides its share in the business, the Mutual Provident Society has a large capital, part of which is lent to the business. In 1908 the amount so lent amounted to 826,000 francs, so that the society had altogether about £53,000 in the business.

The profits are divided as follows : First 5 % is paid on the capital of the partners : capital receives no other share of profit beyond this fixed interest. Of the remaining profits, 85 % goes, either in cash or in benefits, to

labour, and only 15 % to the managing partners. It must be remembered, however, that the managing partners have already received £240 per annum each, as salary, and 5 % interest on their shares of the capital, apart from the division of profits. As to the 85 % which goes to the workers, 50 % is dividend upon wages, to which all the workers are entitled equally in proportion to their wages, but only on ordinary time wages, no dividend being paid on overtime, piece rates, or special remuneration. The remaining 35 %, which is paid to the Mutual Provident Society, also benefits the whole of the workers to a certain extent; but from this part the members of the Provident Society derive greater benefits than the other workers. Provision is made for putting part of the profits to a Reserve Fund of 200,000 francs; but this fund has now for a long time stood at its full amount.

For the year 1911-12 profit divided after paying 5 % on capital was as follows :—

	<i>Frs.</i>
Workmen and other employees (50 %)	282,099
Mutual Provident Society (35 %) .	197,469
Managing Partners (15 %) . .	84,629
<b>Total . . . .</b>	<b>564,197</b>

The total of wages and salaries paid during that year was 1,427,790 francs. The dividend on wages was accordingly  $19\frac{3}{4}$  %.

The management is in the hands of the two unlimited partners, and according to French law the firm must be called by their names, or that of one of them. It is accordingly now known as "Brugnot, Cros, et Compagnie (ancienne maison Leclaire)." A managing partner is elected for life, but he can resign at any time. Either managing partner, acting jointly with the president of the Mutual Provident Society, can require the other managing partner to retire, but this can only be done on the report of the two members of the *Noyau* appointed to examine the accounts. A retiring managing partner has no claim on the Reserve Fund, or the profit of the year, or the goodwill or property of the business. He receives his salary to the end of the year, and a lump sum of £240 extra : his share of the capital is also paid out to him.

Apart from the managing partners the strength of the society lies in the *Noyau* of about 136 picked workmen and employees. No one can become a member of the *Noyau* unless he be a Frenchman between twenty-

five and forty years of age and able to read, write, and do figures. He must also know his trade thoroughly and be of unexceptionable conduct and character. He must also be nominated by the conciliation committee, mentioned below, and be elected by the general meeting of the *Noyau*. Members of the *Noyau* have the first claim to work in slack times.

The *Noyau* has very important functions. In the event of the managing director dying or retiring it elects as his successor one of the employees of the firm. Five times it has had to perform this function. On each occasion its discretion has been thoroughly justified. In order not to limit the choice, it is provided that the new partner may pay up his share of the capital out of his share of profits; and the retiring partner, or the representatives of a deceased partner, can only withdraw their capital by instalments as the new partner is able to pay his in. Each year the members of the *Noyau* elect eight members of a conciliation committee, viz. five workmen and three other employees. One of the managing partners is also a member, and chairman. It has to judge any member of the *Noyau* who commits any breach of duty. The

committee may warn, suspend, or dismiss him from the *Noyau*, from the Provident Society, or from the employment of the firm. It has also to examine applications for membership of the *Noyau*, and, as above stated, it proposes for election those whom it approves. The *Noyau* also yearly elects the foremen of the business from a list drawn up by the managers.

An equally important body is the Mutual Provident Society. To be admitted a member of this one must be a member of the *Noyau*, have good health, and have been employed for five years by the firm. The members, who number about 125, pay no subscriptions, the society's funds being derived from the 35 % of the net profits allocated to it. It gives the following benefits to its members, to pensioners who have been members, to widows and orphans, and in certain cases to non-members employed by the firm: (1) Medical benefit and sick pay; (2) maternity benefit; (3) pensions of £60 a year to every member who has reached fifty years, and served twenty years in the firm; (4) free life insurance for £40; and (5) funeral benefit. Of these Nos. (3) and (5) are available for non-members also to a considerable extent. On October 1, 1909, the society's capital was

nearly £154,000, and it had 212 pensioners on its books, including widows.

In the event of the firm being dissolved its reserve fund, goodwill, and property would fall to the Mutual Provident Society, which by its statutes must then become a "Retiring Fund" for incapacitated house-painters of the Department of the Seine.

The working day is ten hours, which is not long for France; and the rate of pay is the standard fixed by the Works Schedule of the municipality of Paris. It is as high as that of any other firm, and higher than most. Of the 1277 persons employed in 1911-12, 53 were employees other than workmen, 136 were members of the *Noyau*, and 1045 auxiliary workmen, *i. e.* not members of the *Noyau*; and 43 were apprentices. Some of the employees, other than workmen, were also members of the *Noyau*. Every individual of the 1277 received a share of the profit.

Thus in its fully developed form the constitution of this business is such as almost to take it beyond the sphere of ordinary co-partnership between employer and employed, into the sphere of co-operative productive societies. It does not, however, quite take it the whole way: executive power, as well

as a considerable part of the capital and profit, remain with the unlimited partners; and though the whole body of the workers share largely in the profits, yet membership, and the powers that go with it, and certain special benefits derived from the profits, are confined to a comparatively few. It may therefore be regarded as a partnership between the unlimited partners and the members of the Mutual Provident Society, with a very liberal profit-sharing arrangement between that partnership, as employers, and the auxiliary workmen.

The results give satisfaction to every one concerned. The work of the firm is necessarily done not in workshops, but scattered all over Paris; it even happens that squads of men, in charge of a foreman, have to be sent into the provinces to work. In all these cases, there is no difficulty about supervision and good work. In time of pressure any workman who comes for a job may have to be put on, but if he proves to be a bad workman he does not stay more than a couple of days, because (and this is a thing not without its doubtful side) he is reported immediately. The effects on the conduct of the men have been excellent. At the time when Leclaire

started business the painters were notorious among Parisian workmen for drinking and unmanageableness. In 1883 Monsieur Marquot, then one of the managing partners, gave evidence as follows :—

“ The workmen, having more well-being in their own homes, stay at home much more. They save by that, and some have acquired property. Again, a workman conducts himself better, and never lies off work on Monday : he knows that he has a position to fill and that he must, by his behaviour, his politeness towards the customers, represent a firm in whose prosperity he has a great interest. According to figures which we have collected in our own business, before profit-sharing was definitely established by the Notarial Act, the number of journeymen painters who lay off work on Monday and drank to excess was 40 %. Since 1863 this figure has grown less, and for the last ten years it does not with us reach 1 %. Indeed, for more than five years past we have not had to punish on this account.”

In 1900 the managing partners of the firm wrote to the same effect. Further evidence of the development of the spirit of providence



is shown by the creation of several provident institutions to supplement the work of the Mutual Provident Society.

But though the workmen have gained so greatly the employer has not lost. The members of the *Noyau* and the Mutual Provident Society are in an exceptionally good position. The managing partners, as we see, now rise from the ranks, and do by no means badly out of the business. As to Leclair himself, he was not animated by a desire for gain; he wrote to his men that the "dream of his life" was "that, after good conduct and steady work, a workman and his wife might, in their old age, have the means to live at ease in independence;" and again: "It is not enough that antagonism between employer and employed is for ever dead among us: it is not enough that the cause of strikes has disappeared. Sentiments of brotherhood must show themselves more and more." But, if indeed he had been animated by desire for wealth, he went, as he believed, the right way to get it; beginning business with no capital of his own, he died leaving £48,000, and he always declared that, had it not been for profit-sharing, he could not have accumulated so much, "even by fraudulent means."

## CHAPTER III

### ORIGINS OF CO-PARTNERSHIP. THE LABOUR SIDE

I HAVE described the work of Leclaire, and spoken of him by his accepted title, "the father of profit-sharing." Great was the repute of the system he established, and not only in his own country. It became known to English economists, and John Stuart Mill saw in it a great hope for a happy development of our industrial system. In his celebrated chapter on "The Probable Future of the Working Classes," he fully describes what he calls "the beneficent example set by M. Leclaire, and followed with brilliant success by other employers of labour on a large scale at Paris," and he draws a sanguine, but let us hope a true, forecast of progress, by profit-sharing and co-partnership businesses, and the voluntary co-operative associations of the worker, gradually drawing to themselves the best of the working classes.

But well as Leclaire deserved his title, and great as his influence has been in spreading the idea and the practice, for us in England the main source of the movement towards industrial partnership was a much more democratic one; it sprang from the common people themselves, from the great seething of working-class thought and feeling which found in the teaching of Robert Owen its new industrial gospel, and created the modern co-operative movement. Part of that movement, by no means the best known part, consists of the working-men's co-partnership, or co-operative productive, workshops. These not only practise profit-sharing and co-partnership in their own businesses, but have in fact been the centre from which English profit-sharing, as between ordinary employer and employed, has drawn great part of its inspiration.

This workmen's movement is fundamentally democratic. It would not be fair to say it is against the capitalist, but it certainly offers itself as a substitute for capitalism. It may not at first commend itself to the middle-class man who reads these pages, just as the system of Leclaire and other employers may not commend itself at first

to the ardent young workman ; but it is worth while for each to try and understand the point of view which is strange to him.

Labour Co-partnership of the working-class type, like every other form of democratic institution, has its roots deep down in human nature and its aspirations. Even where material conditions are good, the strongest and most intelligent individuals must always look for something better than to submit to absolute government, whether in the political or industrial sphere. This desire for self-government is very far from being mere lawlessness and wilfulness. On the contrary, it is completely consistent with the recognition of equal freedom for others and with order and discipline, but it must be discipline based upon the willing consent of individuals to be governed by the general voice, of which their own is part. Men have gradually risen from slavery to serfdom and from serfdom to wage-service. **Is it not** time for the further step, to a free **partnership** among workers of all classes? These thoughts and aspirations lie behind much that is best and most hopeful in the modern world ; behind trade unionism at its best, behind Friendly Societies, Building Societies, and co-operative

stores ; behind a great part of the propaganda of our political parties ; above all, behind the workmen's co-partnership workshops.

The co-operative productive movement in Great Britain goes back even beyond Robert Owen, to the latter part of the eighteenth century, the early days of the industrial revolution. Already groups of workmen were striving to employ themselves without the profit-making master. There were many such early attempts, but for substantial results we must look much later, to the self-governing workshops which were established by those who became known as the Christian Socialists of 1850 ; or rather we must look to the productive societies which sprang directly from the workers themselves, though they followed upon the work of the Christian Socialists. Among those who have influenced the destinies of the modern industrial world, primarily in Great Britain, but indirectly in many other countries, none perhaps have been more important than this coterie of young professional men. Frederick Denison Maurice, John Malcolm Ludlow, Henry Vansittart Neale, Charles Kingsley, Thomas Hughes, and their colleagues have left a broad and beneficent mark upon the world. It is not

too much to say that millions, who never heard their names, are to-day greatly indebted to them for much of the best that they enjoy. They worked not only for their own religious views, and for the application of humane principles in all industrial and social relations, but especially for working-class organisation in all its forms. They did much for trade unionism, and the higher education of workmen is greatly indebted to them. They secured the reforms of English law which first gave protection to the property of working-men's Associations, and later gave limited liability to the members; and thus they made possible the great working-class co-operative store movement. But for our present purpose the notable fact is that they established the self-governing workshops, which later brought into being the principle of co-partnership.

The thirty or forty years following the end of the great Napoleonic wars, in 1815, were a lamentable period. The wealth of England was indeed great, and immense progress was being made in the mechanical arts. But a large part of the population was living in deep poverty, culminating from time to time, as trade fluctuated, in periods of extreme dis-

tress. Drunkenness and crime were rampant ; rioting and rick-burning, burglaries, highway robberies, and even murders, were common incidents. The working classes were almost without organisation. The fashionable social philosophy of the day had two main doctrines—the doctrine of free competition on the part of individuals, each seeking the good of himself and of his family ; and that of *laissez faire* (or non-interference with trade and with industrial relations) on the part of the State.

Robert Owen and his followers stood alone in Great Britain against this philosophy ; teaching that the general good can only be attained by each seeking the good of the whole body social, and that the true law of progress is organisation, not the mere struggle between the weak and the strong. They were the “socialists” of that day. We should now rather call them co-operators, though their doctrine (at least as originally preached by Owen) included in an undeveloped form both voluntary co-operation, and that action of the State and the municipality which we now call Socialism.

The Owenite Socialists, however, had got themselves the reputation of being, if not atheistical, something nearly approaching to

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it, and of having revolutionary ideas as to the family and property. Maurice and his colleagues, while agreeing in the main with the social philosophy of the Owenites, held that their task was to Christianise socialism : this idea was first conceived by Ludlow. It was admitted that unselfishness was the necessary basis of association, and they held that Christianity alone could give that unselfishness. The Owenites taught the "doctrine of circumstance," maintaining that men's characters are merely what their circumstances make them, and that improved circumstances will, of themselves, produce the required degree of unselfishness. While recognising the powerful influence of circumstances, the Christian Socialists repudiated this extreme form of the doctrine. Ludlow, who had been educated in France, was in Paris shortly after the revolution of 1848, and saw there the co-operative workshops which, at that time, were established in large numbers, both by the efforts of working-men themselves, and by the assistance of the Government. In these workshops he conceived that the great principle of association was embodied in practical form.

On returning to England he urged upon



his friends that similar workshops should be formed there, as the only practical cure for the growing evils of competition and sweating. Accordingly a Working Tailors' Association was first formed early in 1850; and when in November the first number of the *Christian Socialist* newspaper appeared, we find there were also in existence in London a Needlewomen's Association, a Printers' Association, a Working Bakers' Association, two Associations of Working Builders, and two of Shoemakers : others followed. Besides these productive societies there was the London Co-operative Stores, at 76, Charlotte Street, Fitzroy Square; and at the same address was the centre of the movement, the "Society for Promoting Working-men's Associations." The above workshops received nearly the whole of their capital on loan at 4 % from the Christian Socialists; they were constituted on the plan that the workers employed should be the only members of the society; should choose their own manager, regulate all the affairs of their workshop themselves, and—subject to a contribution to a central fund, to be employed for purposes common to all the societies—enjoy the net profits of their industry. This is the organisation which

became so well known as the self-governing workshop.

It is not to be supposed that the founders thought this form of organisation suitable for all industry. They saw that certain trades required to be carried on with so much capital that it was hopeless for the workmen engaged to expect to control them; and in the constitution of the Society for Promoting Working-men's Associations power was given for the admission not only of self-governing workshops, but of societies of combined capitalists and working men. They saw also that, at the bottom of the social ladder, there were large classes of people so degraded by the existing industrial system that they were quite unfit for industrial self-government. But they thought that between these classes there was a body of skilled workmen, working with a very moderate amount of capital, and on the whole fitted to control their own industry in associated groups. This middle body, therefore, they chose for their sphere of work, considering this enough, and far more than enough, to attempt, and deliberately leaving the two extremes to be dealt with by some future generation in its own way.

The earlier Owenite co-operative workshops

were intended for the most part as first steps to the founding of new co-operative communities supplying themselves: this constituted the ideal of the Owenites. The Christian Socialist workshops, on the contrary, were intended to supply the public. The original associations, formed by Ludlow and his friends, started with great hopes, and had some early success; but they all, or nearly all, failed; some after a very short time, and others after some years. They failed, not so much from want of capital, for the Christian Socialists, and especially Vansittart Neale, lent what was necessary in that way; and not so much from want of business knowledge, as from inability to maintain internal discipline, and secure harmony, honesty, and fidelity to one another, among the members. We must remember that there was no chance of getting picked men: the members were workmen taken as they came, straight from the bench, where their training as mere wage-servants, under the lash of competition, had certainly not developed the better side of their characters.

In spite, however, of apparent failure, these workshops gave an immense impulse to the desire for association, and for a better in-

dustrial system; and year after year there was a steady succession of new productive societies, formed by working-men, followers of Owen and the Christian Socialists, both in London and the provinces. At first they were modelled on the self-governing workshop type, but in course of time they modified this original type by admitting as shareholders individuals not employed in the workshop, and particularly admitting the workmen's co-operative distributive societies, which have been their chief customers. Thus originated a prosperous movement, counting some eighty working-men's co-partnership workshops now scattered over England. Though they sprang from the self-governing workshops, they can no longer be described by that phrase, seeing that their government does not rest solely with those employed in them. The self-governing workshop, we have seen, was based on the assumption that the workers employed in it were to provide, from their own funds, or from borrowed money, all the capital required to carry on the business; were to exercise all the control, and, subject to certain payments by all the workshops to a central fund, were to take as their own all the profits of the business. The co-partner-

ship workshop realises that its members cannot provide, or borrow, the whole of the capital required : it therefore invites outside shareholders to provide a part, and often the greater part. Consequently it gives to the workers, not the whole of the profit, but a share in the profit; not the whole of the control, but a voice in the control. Thus was the system of Labour Co-partnership, as a method of employment, evolved by English workmen themselves; and it was, I believe, largely from the spreading abroad of a knowledge of what these working-men's societies had done that co-partnership came to be adopted, first here and there by a few large-minded employers, and now in the last few years by a variety of businesses of ordinary commercial origin, numerous enough and important enough to claim attention as a new school, and a new form of organisation in the industrial world.

It will, therefore, be a matter of something more than mere interest to describe the organisation of these workmen's societies, and to give some typical instances of them, and a few figures as to their numbers and importance.

A workmen's co-partnership productive

society is, in law, something very like a small limited liability company; it is a body corporate, registered, not under the Companies Acts, but like the workmen's stores under the Industrial and Provident Societies Acts. These Industrial and Provident Societies have, on the whole very much the same powers, and the same obligations as a limited company; they have some few privileges, and are subject to some few restrictions and disadvantages.

The constitution of each Society depends upon its rules, but the following may be taken as usual, though by no means invariable, provisions. A member, *i. e.* a shareholder, has one vote, irrespective of the amount of share capital he or she holds: this, however, is limited by law to £200 for any one individual. The shareholders elect the committee of management, on which the various classes of shareholders, *viz.* members employed by the Society, individual members not so employed, and societies which are members, are all represented. No member has any right to employment. There is a general manager appointed by the committee, but his powers are not so wide as in a limited liability company: the committee itself does more than a

Board of Directors would. General meetings are held and accounts made up half-yearly. Sometimes there are monthly meetings of members to discuss the affairs of the Society. The first charge upon the net profit, after providing for depreciation, reserve, etc., is usually a dividend of 5 % on the shares. The profit remaining after that is divided as a dividend to the workers on wages, a dividend to the customers on the amount of their purchases, a small additional dividend on shares, certain payments to educational and provident funds and so on. Thus shares may in a prosperous society get a total return of 6 or even 7 %, labour a dividend of 1s. or 1s. 6d. on wages, and customers a rebate of perhaps 8d. in the £ on their purchases. The figures, of course, vary greatly. In all the more modern societies the worker cannot withdraw his dividend on wages in cash, until he has accumulated a certain sum in the shares of the society. Up to that sum it is capitalised.

A good example of a workmen's co-partnership Productive Society is the Leicester Co-operative Boot & Shoe Manufacturing Society, Ltd. It was founded in 1887 as the result of a strike, and started business with a capital

of £420 only, contributed by the workmen themselves, by a few sympathisers, and by the Trade Union. At first it could only employ four workers, but its progress was rapid. In 1895 it was employing 280 workers, its sales were £88,390, and its capital (share, loan, and reserve) £16,670. The corresponding figures at the end of 1912 were employees 245, sales £44,660, capital £25,811. It sells almost wholly to the Co-operative Stores, many of whom are shareholders, but its committee consists of members employed in the factory with one ex-employee: in this it differs materially from almost all similar societies. Its fortunes have been chequered: for many years it made good profits: then it suffered a period of adverse fortune during which it had to draw upon its reserve to pay dividends on shares: latterly, however, it has become more prosperous again.

One of the oldest of the societies is the Hebden Bridge Co-operative Fustian Manufacturing Society, Ltd. Its peculiarity is that, in the matter of the committee, it goes to the other extreme from the Leicester Boot & Shoe Society. None of its committee men are employed by the Society; the employees are all members and have votes and



a large stake in the Society, but the rules provide that the committee should be chosen from the outside members. This Society was founded in 1870. The members began with subscriptions of 4*d.* a week to get together a Funeral Fund. When they had accumulated for this purpose a small sum, they decided to employ the money, and accordingly bought a piece of cotton cloth, cut it into fustian, and tramped with it to a neighbouring store. So the trade began. By 1885 the Society's capital (shares, loans, and reserve) had reached £22,481: its trade £24,393 and its profit for the year, after paying interest on borrowed money, £2133. For 1912 the corresponding figures are capital £36,185, trade £56,677 and profit £4818. The dividend on wages averages about 9*d.* in the £, and many of the older workers have considerable sums invested either in the shares of the Society or elsewhere.

Another very successful Society is the Walsall Lock & Cart Gear, Ltd., established in 1873 as a result of a strike. The industry was a badly sweated one, but the new society steadily increased its trade and gradually brought one department after another inside its factory, under healthy and well-paid con-

ditions. In 1884 its capital was £923 only, its trade £10,028 and its profit £191. In 1912 the corresponding figures were, capital £15,666 (of which £7079 was share capital), trade £33,012 and profit £1624, allowing a dividend of 1s. 3d. in the £ on wages. The special feature of this society is that its market is not in the Co-operative Stores—which sell but few padlocks—but among keen export merchants, who supply our Colonies and foreign countries.

A few societies have sought to improve upon the partnership of capital and labour by making labour practically the employer of capital. One of the most successful instances of this is the Garden City Press, Ltd., registered in 1894 for the purpose of establishing a Co-operative printing business at Letchworth (Garden City). I was myself the first proposer of this Society, and have been the president throughout. Of its workers, those who are non-members are paid weekly wages in the usual way, at full standard rates or more; but the members employed are remunerated, not by wages, but by a share of the earnings. At the end of the half year, after allowing for depreciation, and paying wages of non-members and 5 % interest on

capital, the net earnings are divided among the working members in proportion to the value of their work done during the period. An exact account of that value is kept, and the member draws weekly seven-eighths of its nominal value as subsistence money. The remaining one-eighth is retained till the end of the half year, as a security for the "wages of capital." Usually the earnings of the business are sufficient to pay both interest on capital, and the balance of the value of their earnings to the working members, together with a substantial sum as their share of profits. Occasionally they have to make a temporary sacrifice, but that is entered as due to them out of future profits. On the whole they have profited largely, and are accumulating considerable sums in the share capital.

The security given to capital has enabled this society to obtain it much more readily than an ordinary workmen's co-partnership productive society; and its trade has rapidly mounted from under £2000 in 1904 to £11,438 in 1912. The door of membership is kept open to all the workers of full age after a probationary period of six or twelve months.

In some of these societies the stores have become the predominant element, by their

steady investments of capital. In one or two notable cases the society was actually founded by stores, but with co-partnership rights for the labour employed. A very remarkable case of another kind is the Society "Wm. Thomson & Sons, Ltd.," of Woodhouse Mills, Huddersfield, which is now reckoned a workmen's productive society, though originally, as its name indicates, a private business. In 1877 it was the private property of Mr. George Thomson, who under the influence of Ruskin's teaching registered it as an Industrial and Provident Society, put himself in the position of permanent manager, and reduced the claims of his capital to 5 %. This business accords ideal conditions to its employees, with a pension fund and other benefits. Its history was at first somewhat chequered, but it has been very prosperous for some years. In 1911 its trade was £46,932, and after paying all expenses, including interest on loans, there was a profit of £3962, of which £838 was credited to workers, and £628 to the pension fund. In 1912 the corresponding figures were trade £49,138, profit £4148, credited to workers £870, to pension fund £480. Its capital consists of £18,028 shares, £14,080 loans, and

**£3000** reserve. Leclaire and Godin led their Societies, through co-partnership of employer and employed, gradually to a co-operative form; but Mr. Thomson established his on a basis which was almost purely co-operative from the first.

These are a few of the distinctive types. Altogether there are about eighty such societies formed by workmen for the purpose of carrying on their own industries. Many of these businesses are very small, but a good many run up to a trade of **£10,000** or **£20,000**, a few to **£50,000**, and three to over **£100,000**. Their number during the last eight years has rather decreased, though up to that time it increased, and the established societies, for the most part, still prosper and grow. The total of their trade reaches about **£1,250,000**: their capital (shares, loans, and reserve) about **£600,000**; and their annual profit after paying interest on loans about **£71,000**.

In Scotland, co-operative production is almost wholly in the hands of three great co-partnership societies, of which two, viz. the Scottish Co-operative Wholesale Society and the United Baking Society of Glasgow, were founded by the workmen's stores, while the

third, though founded by producers, has long since come almost wholly under the control of the stores which have invested in it. Scottish working-class co-partnership, therefore, exemplifies mainly the employment of labour, by consumers' societies, on co-partnership terms. These three societies produce between them goods of the value of £3,300,000, their profit in 1912 was £139,000, and the capital they employed in production about £1,346,000.

Thus, so far as mere magnitude of figures goes, the workmen's co-partnership productive societies in Great Britain, though considerable, do not constitute one of the great movements of the world; but they have not only benefited their members, helped trade unions, and served as centres of working-class idealism: they have played a great part in working out a new organisation of industry, destined to put labour everywhere on a higher footing.

## CHAPTER IV

### ENGLAND : THE EMPLOYER'S SIDE

SINCE I began this little book there has appeared a "Report on Profit-sharing and Labour Co-partnership in the United Kingdom," published by the Labour Department of the Board of Trade. Eighteen years earlier a somewhat similar "Report on Profit-sharing" was issued by the same department. The addition of the words "Labour Co-partnership" to the title tells a tale. "In comparing the details set forth in the present Report," says its Editor, "the fact that comes most prominently to light is the marked increase in those forms of profit-sharing, in which the method adopted is either to invest the whole or part of the bonus in shares, . . . or in other ways to secure that the employees shall possess a direct financial stake in the capital of the business. Schemes of this sort," he adds, "have met with a large measure of success." The report gives examples of the

different types of profit-sharing and co-partnership; and a complete list of present and past profit-sharing experiments, with very full statistics as to the nature and extent of the businesses, the methods of sharing adopted, the amount of capital held by the workers and the favourable or other results. It records, outside the co-operative movement, 133 instances of profit-sharing businesses existing in 1912, with 106,000 employees, as against 101 businesses with about 28,000 employees known when the former Report appeared in 1894. Much has been made by certain critics of the fact that the Report records also 163 cases where profit-sharing had been introduced and had ceased. But these 163 cover a period of 47, or more strictly speaking of 83 years, the first of the abandoned cases, that of Lord Wallscourt, having begun in 1829; and the next in 1865. If we took an equally long period, it would be easy to show that a portentous proportion of the joint-stock companies formed had ceased to exist; and so of every form of industrial or social organisation, trade unions, co-operative stores, friendly societies, or what not. Nor are all the instances which have ceased to be put down as failures. Many of them continued ten



years, and even up to twenty, thirty and forty years, before they came to an end. Moreover, as the Report expressly says : " In more than half the cases of abandoned schemes the cause of abandonment seems to be traceable not to any inherent fault in the scheme as such, but to the falling off of business, or the fact that there were no profits to share." While, therefore, it is undoubted that in this, as in every other form of new organisation, failures do and must occur, the Report on the whole shows a continuous growth of successful profit-sharing, and more particularly of co-partnership; an increase in the number of businesses practising the system, and a still greater increase in their importance, and in the number of men employed. Fortunately this Report is easily accessible for a few pence, and there is the less need for me to attempt to condense it here.

In the last chapter I gave some account of purely working-class co-partnership : in this I turn to employers of labour, who practise, or did in their day practise, the system. By far the most celebrated among the early profit-sharing experiments in England was that of the firm of Henry Briggs, Son & Co., Ltd., of the Whitwood and Methley Collieries

in Yorkshire. Indeed, it is not too much to say that this experiment has still a world-wide reputation, and the fact that, after nine years of success, it was eventually abolished, is still a serious obstacle to the spread of profit-sharing and co-partnership. Previous to 1865 there had been many strikes in the South Yorkshire coalfield, and the relations between employers and employed were about as bad as they could be. In seven years, Messrs. Briggs' Collieries stood idle for fourteen months, owing to strikes or lock-outs, without counting minor disputes which were constantly arising. One result was that the capital employed did not, over those years, earn more than about 5 % profit, a small rate for fifty years ago. Mr. Henry Briggs, the head of the firm, was also Chairman of the Masters' Association, and, as such, was peculiarly odious to the workmen of his district. It is recorded as typical of the state of feeling prevailing, that one fiery speaker declared : " All coalmasters is devils, and Briggs is the prince of devils."

The great desire of Messrs. Briggs, and indeed of the employers generally, appears to have been to destroy the men's Trade Union. Without justifying this attitude, it

must be remembered that very ugly things were done in the name of Trade Unionism about that time. In 1865 the firm apparently despaired of destroying the Trade Union by a direct attack, and decided instead to try to draw their men away from it by an arrangement which should unite their interests with those of their employers. They converted their business into a Joint Stock Company, and specially invited applications for shares from employees and customers, promising them a preference in the allotment. They also offered to recommend to the shareholders that whenever the profit paid to capital in any year should exceed 10 %, the remaining profit should be divided, one half to labour and one half to capital. Both parts should be paid in cash, one as an additional percentage on shares, the other as a dividend upon the men's earnings. But so little confidence was there between the firm and its employees that very few employees applied for shares; and the great majority even neglected to buy the penny account-book, which was a necessary preliminary to receiving a dividend on their wages. Nevertheless, it would seem that there was smoother working from the first; and when, at the end of the

first year, some £1800 was available as profit to be paid to labour, the great majority of the men came in and decided to share in the scheme.

Each year for six years there was a large sum to be divided among the men, amounting to as much as £2462 in 1869. It averaged about 6 % on the wages of the non-shareholding, and about 9 % on those of the shareholding employees, the latter receiving bonus on wages at a higher rate apart altogether from the dividends they received on their shares. Moreover, in 1869 the workmen shareholders, at the suggestion of Messrs. Briggs, elected one of themselves, who was given a seat on the Board of five Directors. The plan was at this point considered a very great success. The working of the business was smooth and profitable, and the effect upon the conduct of the workmen was for some time very satisfactory. Much was written about the experiment, and the fame of it spread over the whole country, and indeed over the world. This lasted during the first six years, which were years of moderate prosperity in the coal trade of England; but with 1872 came a very great rise in the price of coal, which so completely upset all

previous ideas as to profits and wages, and was followed by so complete a collapse, that its effect in the end was to destroy profit-sharing. One of the first effects of the boom was to cause rises in the colliers' wages. With the object of forcing up the district rate, which the company had agreed to pay, Messrs. Briggs' workmen rejoined their Trade Union, from which most of them had fallen away after the adoption of profit-sharing. They obtained advances amounting to 50 % upon the standard of 1865; but at the same time the shareholders altered the basis of the profit-sharing, so as to give themselves also a rise of 50 % in their remuneration, *i. e.* they raised the initial dividend on capital from 10 % to 15 %. But even after paying these great rises, the amount of surplus profit divisible, which was £10,500 in 1872 when the initial dividend on shares was only 10 %, went up to £28,512 in 1873. Half of this went to the workers as bonus on their wages, and half to the shareholders as additional dividend, giving them 25 % in all for the year.

The rejoining of the Union, the changes in the rates of wages and initial dividend, the fact of the pits on one occasion standing

idle on account of a Trade Union demonstration, and other similar matters, caused a good deal of friction, even during the time that the very great prosperity lasted. For the year ending June 30, 1874, the amount of surplus profit divisible between capital and labour was £12,096; but in the second half of that year, the collapse came. Reductions of wages were demanded by the employers throughout the coalfield and were resisted by the Trade Union. Messrs. Briggs expected that their men would accept the reductions; the men decided to stand in with their union, and resist. They accordingly went out on strike with the rest of the district for one month, and for this reason the shareholders in February 1875 abolished profit-sharing. Messrs. Briggs declared that many of the men themselves had expressed a wish "to the same effect, having an idea we were in some way merely keeping back a portion of their wages to be probably (but not certainly) returned to them at the end of the year; and they said that they would prefer to be paid precisely the same wages, and be put on the same footing, as men at other collieries." There is, however, reason to think that it was not so much the Messrs.

Briggs themselves who caused the abolition of profit-sharing, but certain outside shareholders who had never really been favourable to it, and always regarded it as giving away to the men something properly belonging to themselves. It is, however, to be noted that, although abolished, profit-sharing seems to have produced an enduring improvement in the relations of the firm, and particularly of the Briggs family, with their employees.

If we try to see the broad aspects of this experiment, we shall note first that it was started under very bad conditions, owing to the great hostility between employers and employed. It is clear, moreover, that though things became very much better, a certain amount of suspicion on the part of the workmen, and unwillingness on the part of an influential section of the employers, never died out. Further, the scheme was not in the nature of a definite agreement between employers and employed, but was always at the mercy of a vote of the shareholders, who had power even to deprive the men of the share of profits earned in the past year. They never actually did this, but on one occasion the management threatened that they would

do so. Further, there seem to have been misunderstandings and suspicions as to sums set aside for depreciation and so forth; and though the alteration in the initial rate of interest was grounded on the rise of 50 % in wages, it is notable that there is no record of any proposal to reduce the initial interest to 10 % again, when the collapse came and it was proposed to reduce wages. Again, the profit shared with labour was always paid in cash, not shares, so that men did not necessarily or automatically become shareholders in the company, although some of them had made themselves shareholders by applying for shares in the ordinary way. Above all the whole experiment was initiated and maintained in a spirit of hostility to Trade Unionism. This, it seems to me, was the real cause why it failed, as I believe all experiments similarly based have failed, and, I for one say, ought to fail. Employers, if they wish to get the benefits and to confer the benefits which attach to profit-sharing and co-partnership, can only do so if they are willing once for all to renounce any hostility to Trade Unionism. If the workers are frankly allowed to join in the great organisations of their class, then, indeed, but not



otherwise, employers may expect to find that co-partnership softens the whole relation and takes off the harshness of any conflict of interest.

The late Professor Gilman, writing on this experiment, seemed to approve the idea of establishing industrial partnership as a substitute for Trade Unionism, with profit-sharing, above certain fixed minimum rewards of capital and labour, as a substitute for fluctuations in wages. I do not know how it may be in America, but I am certain such a system is impossible in England.

Fifteen years elapsed between the end of the Briggs experiment and the beginning of that of the South Metropolitan Gas Company, which still flourishes. During that interval there were many other experiments: in particular the co-partnership productive societies established by working-men themselves took a considerable development. But none of these experiments struck the public imagination so much as the Briggs scheme, and none of them were anything like so big as that of the South Metropolitan Gas Company, nor led to anything like such great results. For from this last has sprung a great economic movement; the extension of labour co-

partnership in gas companies, which has been so marked in the last few years in England, has already spread to the United States, and gives some sign of spreading to other lands.

In 1889 the South Metropolitan Gas Company, whose Chairman was the late Sir George, then Mr., Livesey, employed about 8000 men and had a capital of about £3,000,000. It found itself confronted by a movement which had suddenly sprung into great importance, the organisation of the unskilled labourers into Trade Unions, whereby they hoped to gain for themselves many of the advantages which they saw that the skilled workers had gained by the same means. With so large a body of more or less ignorant men suddenly feeling their power, things became critical. Various demands were made, for an eight-hours day and so on, and were granted. The men seem to have got an idea that they could obtain anything they asked for. One of them is reported to have said: "If we asked for gold watches, he'd give us them." Discipline suffered heavily, and much waste was going on. To meet this state of affairs the company offered to share profits with their regular workmen who would sign

an agreement to serve for twelve months. Long previous to this provident arrangements for the benefit of the men had been introduced into the business by the influence of Sir George and his father; since 1886 there had been profit-sharing with the officers and foremen; and for some years Sir George had desired to introduce a system of general profit-sharing. He had not hitherto been able to persuade his fellow directors on that point; but now the evident necessity that "something must be done" seems to have aided him. Unfortunately the first result in this case was to bring about a very serious strike. The profit-sharing agreements were to be dated on different days and, being for twelve months, they would fall out on different days. The result would be that the workers could never combine all to strike at the same time, without an illegal conspiracy. No doubt the Trade Union felt that this was to put the workmen at the mercy of their employers; and, in the absence of any right of appeal to arbitration in disputed questions, there was much justice in their objection. The employers, on the other hand, felt that it was their business to keep the South of London lighted, and that a strike which would plunge it into darkness

some night would let loose very dangerous elements of disorder. The result was a great, and indeed historic, strike. The Labour Co-partnership Association then, as now, the recognised propagandist of co-partnership in England, approached both parties, and terms acceptable to both were agreed to on all points, except one. That was a point of honour. The Union required that its men should be reinstated in their jobs, and the company declared that they could not possibly turn away the men who had come to them during the strike. Finally the strikers were completely beaten. All this is now a matter of ancient history, and there has never been any further conflict between capital and labour in the company; but unfortunately for many years the memory rankled, and it has not yet been entirely forgotten; nor has it entirely ceased to prejudice in labour circles the advocacy of co-partnership.

The application of profit-sharing in this company was facilitated by the existence of a sliding scale regulating the dividends payable on share capital. The law governing many English gas works was, as it still is, that when gas is sold at a certain standard price, a certain standard dividend may be paid to the share-

holders—if, of course, the company earns it. If the company can reduce the price of gas to the public, and at the same time earn sufficient profit, it may legally pay an additional dividend of so much per cent. on its shares for every penny by which it reduces the price of gas to the public. To introduce profit-sharing with its employees, the company voluntarily extended the sliding scale to them. Thus for every penny per thousand by which the price of gas could be reduced to the public, the shareholders were entitled to pay themselves an additional dividend, and the workmen now became entitled to receive a dividend on their wages, a dividend rising 1 % for every penny in the reduction of the price of gas. The basis price of gas for fixing the dividend on wages and salaries has since been changed, but at that time it was taken at 2s. 8d. per thousand, and for every penny reduction a bonus of 1 % was to be paid: the scheme was dated back three years, to the benefit of nearly all the men, this “nest-egg” being equal to about 8 % on one year’s wages, for those who had been with the company three years. This sum was to remain at interest for three or five years. Four per cent. interest was to be paid

to men leaving their bonus on deposit. In 1889 and 1890 the bonus was 5 %; then with a rise in the price of coal, the bonus fell to 3 %; then it rose to 4 and 5 %. In 1895 it was 6 %, and in 1896 and 1897 it was  $7\frac{1}{2}$  %; in 1912 it was  $8\frac{1}{4}$  %.

For a few years simple profit-sharing only was applied : the men were indeed encouraged to invest their bonus in the company, but they were entitled, if they wished, to receive it all in cash. Then from 1894 the rate of bonus was increased, on condition that at least half of it should be invested in the shares of the company. Within twelve months 85 % of the men accepted this offer, and later investment of the half was made obligatory on all. By 1896 the worker shareholders had in this way become owners of over £50,000 of the share capital, and power was obtained from Parliament to allow them to elect two of themselves (afterwards three of themselves), directors of the company. For a great many years past the Board of the South Metropolitan Gas Company has, therefore, consisted of ten Directors, of whom two are elected by those shareholders who are also manual workers for the company, and one by those shareholders who are members

of the office staff: the remaining seven are elected by the whole body of shareholders, whether employees or not.

At the end of 1912, after twenty-three years' working, there were 5951 employees with profit-sharing agreements, in fact practically all the regular hands, including the extra men who are only wanted in winter. Among them they held shares and deposits, worth about £439,065, at the market price; and from the beginning of the scheme they had received £594,059 as dividend upon wages. Of course the representation of the employees on the Board is out of all proportion to their holding in the company, for its share and loan capital amounted to £8,325,000; but it was felt that while shareholding must be a condition precedent to a voice in the affairs of the company, it was not the only interest of the employees to be represented on the directorate.

In addition to the above arrangements, and partly growing out of them, there are other arrangements for inquiries into accidents, for provident purposes and so forth. These are administered by what is called the "Co-partnership Committee," composed of representatives of the company and of the men,

in equal numbers. Rates of pay in this company, without counting the bonus, are as good as for similar work elsewhere, and rises have been given in several instances without a demand by the men, because the state of the labour market required it. The eight-hours day prevails for all the men including mechanics. As to the relations with Trade Unionism, the unfortunate beginning of this experiment—the quarrel with the Gas Workers' Union, and the great strike which followed—has been mentioned above. After the end of the strike the chief labour leader concerned was reported in the Press to have said publicly that the great mistake they made was in giving notice, and that in a future contest they would give none. The Directors, therefore, thought it desirable to introduce into the agreements which every profit-sharing workman was required to sign as a basis of his co-partnership a declaration that he was not a member of that Union : at the same time they repudiated any hostility to Trade Unionism in general. It is difficult quite to reconcile this repudiation with some of the public utterances of Sir George Livesey, who, great and good man as he undoubtedly was, seems to me to have allowed his struggle



with the Gas Workers' Union to influence too much his judgment with regard to organised labour. The signing of these profit-sharing agreements by the workers, with the express repudiation of the Gas Workers' Union, went on for a good many years; but by and by it became quite recognised that some of the men were nevertheless members of the union. That was winked at; and eventually, about the year 1905, I myself wrote to Sir George that this clause in the agreement was preventing the spread of co-partnership. He took it in the best part, and after an interview with Henry Vivian, then Secretary of the Labour Co-partnership Association, and myself, he caused the objectionable clause to be removed from the profit-sharing agreements. Since that time every worker has been entirely at liberty to belong to any Trade Union he likes. Many of them are Trade Unionists, and in one case, at any rate, one of the strongest advocates of co-partnership among the employees is also a strong Socialist. In the spread of co-partnership to so many other gas companies there has only been one other labour trouble and that not a very serious one: nor has there been any other strike in the South Metropolitan.

It cannot, however, be said that the Gas Workers' Union has ever become friendly to co-partnership.

The example of the South Metropolitan Gas Company has eventually spread to quite half of the gas industry of England, excepting those gas works which are the property of municipal corporations. This, however, followed by no means quickly. In 1893 Sir George Livesey extended the system to the South Suburban, then called the Crystal Palace District Gas Company, of which also he was Chairman. Seven or eight years later a third London Company—the Commercial—adopted the system, and in 1899 and 1901 the Newport and Chester Companies followed suit. These made five co-partnership gas companies altogether at that date, and for six years there was no addition to the number; but in 1907 a great spread of the system throughout the gas works began, and it has continued ever since.

The most notable addition was in 1908, when the only remaining London Company—the Gas Light and Coke Company—adopted the system. This is, I believe, the largest gas enterprise in the world; its capital is not far short of £30,000,000, and the number

of its employees who enjoy the co-partnership privileges exceeds 9000.

I give below details of the thirty-three English gas companies which practised profit-sharing or co-partnership at the end of 1912, but even since then there are additions to the list.

We see that these companies have a capital exceeding £51,000,000; that the number of their employees under agreement for profit-sharing or co-partnership exceeds 23,000, among whom more than £124,000 was divided in 1912. The amount of shares and deposits held by them at the end of that year in the various companies employing them exceeded £746,000, taking them at their market value.

It is evident, therefore, that in this one industry the co-partnership principle has reached a very great development. Of all the gas companies which have adopted it, there is only one very small one known to have abandoned it. In that case the experiment was tried in 1909 and abandoned in 1911, the reason given being that the employers were dissatisfied with the results. I have, unfortunately, no further information on the point. We shall see later that the Boston (U.S.A.) gas works has adopted co-partnership.

# AND PROFIT-SHARING

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## PARTICULARS OF CO-PARTNERSHIP AND PROFIT-SHARING IN BRITISH GAS COMPANIES AT DECEMBER 31ST, 1912.

Name of Company.	No of Years Scheme has been in operation.	Capital in 1912. Total share and Loan	No of Employees under Agreement for Profit-sharing or Co-partnership.	Amount divided among Employees for year ending December, 1912.	Amount per cent. on Wages.	Total Profit to Employees since scheme was adopted.	Amount of Shares and Deposits held by Employees in the Company. Market value on Dec. 31, 1912 (about).
		£		£		£	£
South Metropolitan (a)	23	8,325,340	5,951	45,350*	84	584,050	439,065
South Suburban (a)	19	1,432,281	606	4,030*	7	44,483	42,362
Commercial . . . . .	11½	2,548,280	1,226	6,818*	6	58,813	54,319
Chester . . . . .	11½	269,650	72	411*	64	2,947	2,318
Epsom and Ewell . . . . .	5	89,089	42	140	—	531	345
Leamington Priors . . . . .	5	82,500	103	389*	5	1,825	2,052
Wrexham . . . . .	5	140,600	66	391	7½	1,654	2,113
Bournemouth . . . . .	4½	700,195	416	2,793	8	8,696	6,468
Rugby . . . . .	5½	59,327	50	204	6	1,067	787
Tottenham . . . . .	4½	753,410	625	3,951	7½	17,827	20,190
Tunbridge Wells . . . . .	4½	178,266	143	690	6	2,690	2,621
Walker and Wallsend . . . . .	4½	271,918	98	396*	4½	1,500	4,390
Wellingtonborough . . . . .	4	90,853	63	321	6	1,109	1,102
Croydon . . . . .	4	607,252	569	2,696*	5½	7,069	13,521
Dartford . . . . .	4	112,746	38	170	4	644	630
Gas Light and Coke . . . . .	4	29,571,893	9,650	40,870*	4½	137,998	135,105
Gloucester . . . . .	4	228,302	108	532*	7	1,857	2,116
Weston super-Mare . . . . .	4	121,320	104	369	4½	1,151	355
Grantham . . . . .	3½	106,000	48	198	5½	481	517
Cambridge . . . . .	3½	199,764	179	869	6½	2,373	2,271
Cardiff . . . . .	3½	703,014	297	1,082	8½	3,435	3,162
Enfield . . . . .	3½	207,360	139	485*	4½	1,382	1,242
Hilford . . . . .	3½	280,505	199	721	4½	2,195	2,247
Watford . . . . .	3½	70,900	52	326	8	698	540
Watford . . . . .	3½	194,605	111	501	4½	1,649	1,620
Longwood . . . . .	2½	89,669	35	158	6½	330	182
Wandsworth & Putney . . . . .	3	548,262	369	2,431*	7	4,117	2,999
Merthyr Tydvil . . . . .	2	61,253	34	84	3½	164	—
Harrow . . . . .	1	237,988	94	290	4	576	—
Plymouth . . . . .	2	391,500	264	1,080*	5	1,845	1,89
Aldershot . . . . .	1	377,580	138	334*	3	334	—
Liverpool . . . . .	1	1,956,972	1,850	4,962*	4	4,962	—
Hertford . . . . .	1	22,609	30	81	5	81	—
—	—	51,120,694	23,750	124,151	—	910,414	746,395

\* Year ending June. + Year ending March. (a) Three employee representatives on Board. (b) Two employee representatives on Board.

There are indications that it may spread to other parts of the English speaking world; while in France the Gas Workers' Union has passed a resolution in favour of the principle, or something very like it.

## CHAPTER V

### NOTABLE ENGLISH CASES

IT is often said that the success of co-partnership in gas works proves very little, because their circumstances are so special. I have pointed out that the existence of the sliding scale facilitates matters in them, but it is not so much that on which the critics rely. A gas works, they say, has a monopoly of a district, and no competition: its profits and trade are regular: its technical processes are simple and of a routine character: its shareholders in the enjoyment of good dividends: therefore it is easy for gas works to apply co-partnership. Now, in the first place, gas works have to meet a heavy competition from electric light and power companies, and from oil lighting and heating in all forms. Secondly, profits are liable to be seriously cut down whenever a great rise in the price of coal takes place; and then dividend on wages

drops in sympathy. Thirdly, the technical processes of gas-making, originally simple, have become complicated, have changed and are changing much, with the introduction of water gas, oil enrichment, saving of residuals, and so forth. For all these reasons it is a great mistake to suppose that the gas industry is more suitable for co-partnership than many others. The real reason why the system has spread in gas works especially is that the great man who gave so large a part of his life to the practice and propaganda of co-partnership happened to be a gas-engineer. Livesey might have done as much in some other trade, had it happened to be his.

However, a mere argument on this point is not so convincing as examples of other businesses in which co-partnership has actually succeeded. One of the most striking of these is the firm of J., T. & J. Taylor, Ltd., of Batley, woollen cloth manufacturers, which employs about 1500 workers, many of them women. Of these over 1200 are shareholders, holding among them shares to the amount of over £70,000. The business is as different in all respects from gas-making as could well be imagined. It depends largely upon satisfying the varying fancy of ladies in the matter of

dress materials. Nevertheless, it has made co-partnership a success for many years.

In 1892 Mr. Theodore C. Taylor, now Member of Parliament, became the sole proprietor of the business, and at once began, to a limited extent, to carry out the idea of profit-sharing. At first he went no further than the managers and foremen, but in the beginning of 1896 he announced a scheme of profit-sharing to include the whole of the employees. In the same year he converted the business into a private limited liability company, in order to carry out his purpose, and as a commencement a profit-sharing distribution of shares was made retrospectively for the year 1895. The scheme provides that, after making due allowance for depreciation, and paying 5 % on shares, any profit which may remain is apportioned between capital and wages according to their respective amounts. In other words, any rate of dividend received by capital beyond 5 % is also declared on the year's total wages, and every worker who has been employed during the whole of the year is credited with bonus at not less than that rate on his or her year's wages. Double bonus is given to employees, not less than twenty-one years of age, who have been with the company at least five years and own shares



equal to half a year's wages. To provide for this double bonus, the sum total of the wages of those entitled to it is doubled when computing the total wages upon which bonus is declared. The bonus is not given in cash, but in the form of fully-paid shares in the company. The shares thus allotted entitle the holder, in the following year, to payment in cash of any dividend that may be declared on them. Such proportion of the total wages paid as has been earned by workers who have not remained the whole year does not confer bonus on those individuals: nevertheless, the whole wages paid during the year rank along with the capital for bonus, the amount unappropriated to individuals being carried to a special fund called the Workers' Benefit Fund.

The bonus shares do not carry votes, but they entitle the owner to the same rate of dividend as any other shareholder; and, in case of winding up the company, to share at the same rate in the assets. These shares can only be held by employees of the company, and an employee must have a holding equal to his year's wages before he can sell any of his shares. He may then if he wishes sell any surplus above this holding. Persons leaving the company's employment may be required

to sell their shares within six months, but to prevent employees leaving simply to get hold of the money, the company does not undertake to transfer shares until three months after the holder has left.

This scheme has proved a great success. The business, which employed only 600, has grown to above 1500. The capital has been increased largely. The rate of profit has usually been high, dividends running at  $12\frac{1}{2}\%$  and even higher. This is partly because when forming the company Mr. Taylor charged nothing for goodwill. With two trifling exceptions there has never been any labour trouble and the relations between employer and employed are excellent. The employees are quite free to belong to the Trade Unions. They now own more than half the capital of the business, and receive in profit-sharing on wages, and dividend on shares, which represent accumulated bonus, about two-thirds of the profit. During the seventeen years ending 1912 considerably over £100,000 has gone to the workers as bonus shares, dividend on shares, and allocations to the Workers' Benefit Fund. For the year 1912 the dividend on shares was  $12\frac{1}{2}\%$ ; and this gave a dividend on wages of  $7\frac{1}{2}\%$  to those employees who had

been with the firm less than five years, or owned shares of less than the amount of half a year's wages; and a dividend of 15 % to the other employees, a considerable number.

It will be noted that in Messrs. Taylor's case the shares held by the workers do not carry votes. Now the manifesto issued by the Labour Co-partnership Association, after the great railway strike of 1911, said of co-partnership "in its simplest form, taking the case of a man employed by a great limited liability company, it involves:—

"(1) That the worker should receive, in addition to the standard wages of the trade, some share in the final profit of the business, or the economy of production.

"(2) That the worker should accumulate his share of the profit, or part thereof in the capital of the business employing him, thus gaining the ordinary rights and responsibilities of a shareholder."

Certainly the ordinary rights of a shareholder include a vote on the affairs of the company. That, at any rate, is so with those who hold ordinary shares to more than a certain amount, though it is quite usual for the holders of preference shares only to have a vote on those

matters which affect their interests, as against the interests of other classes of shareholders; also for holders of less than a certain minimum amount of ordinary shares to have no vote. The question has therefore been raised whether it is right to use the word co-partnership in describing a scheme like that of Messrs. Taylor, where the shares held by the worker, though in all other respects ordinary shares, do not confer votes. The answer appears to be that Messrs. Taylor's scheme, where the workers own more than half the capital of the business and receive about two-thirds of the profit, either as dividend on their shares or as dividend on their wages, goes evidently so far beyond simple profit-sharing that to describe it merely as profit-sharing would be entirely misleading. If we do not call it co-partnership, what are we to call it? Admittedly it does not satisfy our definition of co-partnership in all respects, but take an analogous case. Our definition of a man involves the possession of four limbs; still we should not deny the name to a person who is not blessed with the full number. It would, of course, be useful if we had a word for arrangements that have grown beyond simple profit-sharing and do not reach the full extent of the definition of complete co-partnership;

but as we have not such a term in English, we have to get along, somewhat haltingly, but as best we can. Accordingly many people recognise as co-partnership businesses in which the worker enjoys profit-sharing, and has a substantial interest in the share capital, even though that interest does not carry with it the full rights of the ordinary shareholder. Others stand out for a stricter use of the term. The French have a phrase "L'actionnariat ouvrier," meaning "workmen's shareholding" which covers the cases which we call co-partnership, as well as all the other cases where the workmen hold shares in the company which employs them. But we have no corresponding word.

#### MESSRS. LEVER BROS., LTD.

The exact point at which we must stop using the term co-partnership is raised again by the next case I will quote, which is one of the greatest instances of profit-sharing, and much more than profit-sharing, in the world. It is the case of Messrs. Lever Bros., Ltd., of Port Sunlight, and many other addresses, the celebrated soap manufacturers, who have factories all over the world. The issued capital of this company approaches £10,000,000;

and the number of its employees at Port Sunlight alone exceeds 5000, while if its branches and associated companies in the United Kingdom, Canada, the United States, Holland, Belgium, France, South Africa, Japan, China, Australia and the Congo are included they must be more than double that number.

Previous to 1909 there was no co-partnership or direct money profit-sharing in this business, though for many years the company had done much for the benefit of its workers, especially by building the beautiful garden village of Port Sunlight, where so many of them are housed at very low rents, under ideal conditions, and can enjoy parks and gardens, public halls, and other advantages in common. The founder and master spirit of the business, Sir William Lever, Bart., was wont to criticise vigorously ordinary profit-sharing. He called his plan "prosperity sharing." It was in principle the same as many other forms of paternal institutions, by which the best employers have so often sought to benefit their workers.

In 1909, however, Sir William introduced a form of sharing profits with the company's workers, all over the world, which certainly went very much farther than "prosperity

sharing " or paternalism, and cannot I think, be adequately described except as a very special form of co-partnership. By its unusual character and its vast scale it deserves more than ordinary attention.

It is interesting to learn what so great a business man looked for in co-partnership, and what his views are on the wages system. "What we have got to do," he has said, "if we want to make co-partnership spread throughout this country, is to recognise the basis upon which all industries are run, namely, efficient service to the public—to find in co-partnership not a coddling scheme, not a scheme for the distribution of doles and benevolences, but a business system, under which the industries of this country can be better run than under any other system; superior to any other system for economy of production, for service to our employers the public, and for reaping the fruits of our industry amongst ourselves." . . . And again: "I believe that it is impossible to produce the necessary propelling power of a human being, unless you give some individual motive, incentive and ideal of their own, which will encourage them during all the weary hours of monotonous work, which will stimulate them

during the whole of a long life spent in industries, a life which for most of us must be fifty years—a long span—half a century; and to maintain an active progressiveness and an ever-ready alertness during the whole of that period, my experience proves to me it cannot be done with the wage system alone.”

The basis of the new system was laid down in a Trust Deed, and was the creation of “Partnership Certificates” to the nominal value of £500,000, with power to increase this amount by consent of the majority shareholder—meaning the person owning the majority of the ordinary shares, or representing the owners of such majority for the time being. Each year the majority shareholder, who at the present time is Sir William Lever himself, allots out of the total amount so created partnership certificates, as he chooses, to any director. Similarly the directors (as trustees) allot to any worker, being not less than twenty-five years of age, and of five years’ standing in the company; but their action in this respect is subject to the approval of the majority shareholder, and also to appeal on the part of any employee. As a rule the allotment amounts to 10 % of the allottee’s ordinary wages or salary for the year, including piecework; but



it may be more or less than 10 %. One man may get more than another man, and the same man may get more one year than another year; each individual case is to be judged each time on its own merits, without reference to any other case, or to precedent. In case of special service rendered, a man is allotted more than the 10 % : I do not find evidence that, if he gets certificates at all, he ever gets less than 10 %. The scheme was introduced in February 1909, but it was dated back to 1901, so that all those who would have been eligible in 1901, received, as it were, their arrears of co-partnership certificates. In this way 1141 of the employees and directors were eligible and received among them certificates, co-partnership or preferential, of the nominal value of £113,650. No one can be a holder of certificates unless he applies to become so, and signs an undertaking that he "will not waste time, labour, materials or money in the discharge of his duties, and will loyally and faithfully further the interests of Lever Bros., Ltd., and its associated companies, and his co-partners to the best of his skill and ability." The motto "Waste not, want not" has been chosen as summing up the economic justification of the scheme.

Partnership certificates are not shares, but are to some extent like shares, because they entitle the holder to a dividend out of the profits of future years: not for ever, however, but for a limited time. No capital is paid for them, and no liability attaches to them in the event of the business going into liquidation. The share of the profits they receive is based on the following conditions: After payment of

(1) Interest at 5 % or 6 %, according to their class, on the preference shares.

(2) Interest at 15 % or 5 %, according to class, on preferred ordinary shares.

(3) Interest at 5 % on the ordinary shares, and

(4) Interest at 5 % on the preferential certificates to be mentioned immediately,

the ordinary shareholders and the holders of partnership certificates receive the surplus profits. These are divided among them at the same rate per cent. on the par value of the ordinary shares outstanding, and the par value of the partnership certificates outstanding, for the time being. Thus if ordinary shareholders in any year get 10 % (viz. 5 % interest plus 5 % out of surplus profits), the partnership certificates get 5 %; if ordinary

shareholders get 8%, the partnership certificates get 3 %; if the ordinary shareholders get 5 % or less, the partnership certificates get nothing.

This arrangement is explained on the ground that the ordinary shares have been actually paid for in cash, whereas the partnership certificates have not. The holder of an ordinary share ought, therefore, to receive interest on his money before he is called upon to share the remaining profits with the holders of partnership certificates. It is pointed out that the holder of a partnership certificate for £10, if he has £10 to invest, can buy preference shares to that amount and pin them on to his co-partnership certificate. He will then have paid capital into the business like the ordinary shareholder; and he will receive the same rate of dividend as the ordinary shareholder so long as he remains an employee, with a better security for his capital.

The interest created by the partnership certificates is, as I have said, terminable. First they may be forfeited :—

- (a) In case of flagrant misconduct.
- (b) If the allottee voluntarily, and not owing to permanent incapacity, leaves the

employment of the firm while still under sixty-five years of age; or, in the case of a woman, under sixty.

(c) In case of anything happening which would have caused the certificate, if the absolute property of the allottee, to be vested in or charged in favour of some other person.

Secondly, partnership certificates, held by any employee or director, are converted into a preferential certificate in the following cases :—

(a) If the holder leaves the employment of the firm for any other cause than those above mentioned.

(b) If the holder dies, or breaks down in health.

(c) If the holder reaches sixty-five years, or, for a woman, sixty years, and retires voluntarily, or at the request of the firm.

The nominal amount of such preferential certificate is either ten times the average dividend paid in respect of the former director or employees' partnership certificates during the three preceding years, or the same nominal amount as that of the partnership certificate so exchanged, whichever shall be the lesser

Preferential certificates, as we have already seen, have a claim on the profits for 5 % interest next after the claim of ordinary shares to receive 5 % interest, and before the claim of co-partnership certificates and ordinary shares to divide the surplus profits. If, therefore, a workman held co-partnership certificates to the nominal amount of £200 and had received on the average of the last three years 10 % (the amount paid in 1910-12), he would receive on retiring a preferential certificate of the nominal amount of £200, and would thenceforth be paid £10 a year, if the profits were sufficient after paying 5 % on ordinary shares.

The preferential certificate passes to the widow of the holder on his death, and remains hers until her death or re-marriage, when it is cancelled.

The Trust Deed under which the scheme is worked defines those who are eligible to receive certificates, and creates trustees and a committee to act under them. The committee and trustees act as judges in all matters arising out of the profit-sharing, but the majority shareholder is a final Court of Appeal. The directors, other than the chairman, are the trustees : the committee is elected in four parts; three of them by the three classes into which

the employees of the firm are divided under the Trust Deed. It consists of twelve members, three being elected by the management class : three by the salesmen class : three by the staff class, which contains the other employees; and three by the holders of preferential certificates. Whether an employee shall be admitted to receive partnership certificates, and the nominal amount of the certificates to be allotted to him, is, in the first instance, determined by the trustees. They may, if they like, ask the committee to consider the case of any applicant; and to report whether he is qualified, and if so, what amount of certificates he ought to receive. The employee on his part may require his case to be referred to the committee. On receipt of the committee's report, the trustees give their decision, subject always to a right of appeal to the majority shareholder, whose decision is final. An applicant does not in any way bind himself not to strike, nor that he will not leave the firm to better himself. If, however, he should strike, and return to work after the strike, the trustees may withhold further issues of co-partnership certificates as long as they choose. It is not clear whether he would forfeit those he had already received. Appar-

ently he would under the conditions quoted above from the Trust Deed, but whether that forfeiture would be enforced might, one surmises, depend on circumstances. Sir William Lever has frequently spoken strongly in favour of Trade Unionism, and has distinctly declared that a man has every right to strike if he thinks he can best serve his interests in that way. Of course, if the workman for any reason voluntarily and permanently leaves the service of the company, he forfeits his profit-sharing certificates. This seems hard, if we regard them as share capital; but they are in fact only warrants to share in future profits, and no one not in the employ of a firm, and not having paid in capital, can claim to do that. That which becomes the workman's own indefeasible property is the dividend he has received on his certificates: this is paid to him each year, or rather put to his credit in a "Savings Bank" account in the company's books.

The amount of co-partnership certificates which may be received by any one person is limited, except by authorisation of the majority shareholder. If his salary is £750 or over he may receive up to £3000 nominal. If it is less than £100, up to £200; and there are four

other intermediate steps. The total amount distributed among the members of each of the four classes (*i.e.* the director class and the three classes of employees) must not exceed one-fourth of the total amount of the partnership certificates for the time being authorised to be issued.

How far profit-sharing has actually gone will be seen from the following figures:—

	1909.	1910.	1911.	1912.
Total of Co-partnership and Preferential Certificates issued or outstanding to end of year . . . .	£113,650	£214,982	£208,731	£335,529
Dividend on Co-partnership Certificates paid for year, rate . . . . .	7½ %	10 %	10 %	10 %
Dividend on Co-partnership Certificates paid for year, amount . . . . .	£7,379	£19,728	£28,708	£32,279.
Number of Co-partners . . .	1041	1149	1749	1906.

The number of co-partners, out of over 10,000 employees, is not large, but it must be remembered that a large proportion of the workers are young girls, who leave to marry before they are twenty-five.

A matter of the utmost interest and importance, though not strictly a matter of profit-sharing or co-partnership, is that employees of this company are given security of tenure. The public do not realise how keenly the wage earner feels his liability to dismissal, which may be, or may seem to



him, arbitrary, and from which there is no appeal. In this company employees under two years' standing remain subject to the ordinary right of dismissal, presumably by departmental managers; but above that standing any employee who is dismissed has a right of appeal first to a committee, and from that to the head of the business himself.

It will be seen that the scheme differs considerably from the ordinary co-partnership arrangement as existing, for instance, in the gas companies. In them there is little or nothing that can be called selection of the workers eligible; there is an open door, and if this free admission is not justified in the case of each individual worker, still in its effect on the majority, and in its total result, it is so justified. Messrs. Levers' scheme, however, selects its co-partners very carefully. This selection Sir William has defended in the following words :—

“ I asked myself was there ever a time in those old days when a man would not have insisted on his right to choose his own Co-Partners; when a man would not have resented, under any conditions, a partner forced on him against his will? . . . Before I

want any man as a Co-Partner, he must be a man actuated by the same business loyalty as I have myself. Some men may be fit to be somebody else's partners—make excellent partners for somebody else—but that does not qualify all men to be capable of becoming good partners for me; and I cannot grant the right to demand admission to Co-Partnery except on the basis of suitability and business considerations. It is the very keystone of success in the arch, if Co-Partnership is to be successfully run. No one can come and demand to be made a Co-Partner, but, on the other hand, I do so provide that no employee can be arbitrarily refused without reason."

The question, of course, arises whether a scheme thus based on selection can be classified as strictly a case of profit-sharing, or whether it is merely another form of prosperity-sharing, of gratuities or benefits given at the will of the employer. Certainly if the power of selection were used to benefit only a few, or only those chosen in a purely arbitrary way, it could not be called co-partnership; but the passage just quoted, together with the right of appeal already

described, implies that the worker is admitted to co-partnership on reaching twenty-five years of age and completing five years of service, unless there is any serious reason to debar him. But if the system is rightly called profit-sharing, is it also rightly called co-partnership? I have pointed out that the "co-partnership certificates" are not really in the nature of shares, but of warrants entitling the holder to share profits, as long as he continues in the employ and fulfils certain conditions. The preferential certificates also are not shares: they were never paid for as shares, nor do they impose any liability to pay capital, nor confer any right to vote in the shareholders' meetings. They too, it seems to me, are in the nature of warrants—warrants for a terminable and conditional annuity. On the other hand, a certificate does constitute a solid interest in the prosperity of the company; and though it does not carry a vote in the shareholders' meetings, the workers have the right to vote for the committee created by the Deed of Trust, as well as for numerous departmental committees and councils. They thus enjoy more real control over the details of their industry than if they had, say, 2 % or 3 % of the .

voting power in the shareholders' meetings. Moreover their fixity of tenure, of itself, puts the workers almost in the position of partners, rather than of wage servants. Still, if one must speak strictly, I think the scheme is more properly described as profit-sharing than as co-partnership—in the sense of that word which has been well established for the last twenty years.

But whatever be the technically right term to describe it, we have, in this scheme, one of the greatest examples of a new organisation of labour, combining the strong management of the great captain of industry, with a recognition of the rights of the rank and file, of the necessity to share the administration with them as far as possible, and the duty and expediency of giving them a direct share in the results. I cannot better impress these ideas upon my readers than by quoting once more from words of the founder of the scheme :—

“ It is the successful management of labour, and only the successful management of labour that can produce any wealth.

. . . . “ I have found that the best way to improve management is not to make too

rapid strides in promotion, to commence to raise to more efficient service by the formation of committees in each department, such committees to be formed of employees and foremen representing all the various elements of that department that go to the conduct of that department, both in the managerial sense and from the workmen's side—to get suggestions in that individual department and so on; and then to draft from these various departments another body, a more limited body in numbers, consisting of one or two from each department only, to form what we call a council, who can take a broader view of management. We have many councils. We have found that we cannot put the whole works under one council. . . . It is impossible to make a council representing men at the docks who handle the goods coming in, sit side by side with men or women from the card-box department producing the cartons to hold the finished product. They have no interests or experience that you can find to bind those two departments together to make them useful the one to the other. Therefore we have had to make our councils by linking departments together which are allied in some way, and so making

them helpful to each other. The department that makes the cartons can well work with the department that stamps and packs the soap, and so on ; because they work in intimate connection with each other. . . .

“ Do not let us think that in a co-partnership arrangement, success depends upon taking a man out of a department in a huge industry—it may be a man in the warehouse, or a man in the department that produces the goods—and electing him to a seat on the Board of Directors. Questions of finance, organisation, the opening of new branches, and so on, are under consideration by the Board of Directors, requiring previous training to handle, and there is nothing in co-partnership that can replace previous training, and under such circumstances, sitting down with colleagues on a Board of Directors, an untrained rank and file wage-drawer cannot make any useful suggestions or aid in high management. We have to be reasonable. But I do say this, that with co-partnership as the basis of committees in the works, such committees working up to councils, out of those councils we have been able to take the whole of our Board of Directors. All our Directors, including myself, have sprung

from the various departments in the business; they have all had full experience, and the Board of Directors is self-contained within the business. We have not in our undertaking a single man whom you could call an outside Director.

“The basis of success in co-partnership means improvement in management, which is going to make the variable remainder available for profits larger, and the losses less frequent of recurrence, or to make them disappear altogether; and I say this—that you cannot manage a great industry entirely from the top. You must have it built up on the lines of the pyramids, so that each layer is self-contained. You must have efficient management in every department, keeping down repairs and renewals in every department, and attention to the fifty and one ways in which raw material, coming into a works, can be made the most of, and the manufactured product leaving the works can be made of the highest quality in accordance with the demands of the public. This we can best do, I claim, by a system of co-partnership under which each section of the works can be represented by a committee of co-partner workmen and managers, working

up then and next to a council, and finally up to the Board of Directors. So you get diffused management throughout the whole. Under an ordinary system of mere wages payment, how can you go to a man, a youth, or a woman in the factory, and say to them : ' Now, look here, we think this department can be improved and waste reduced. You can improve the output here. There can be more got out of these goods ; a better article produced out of the raw material you are handling ' ? Such ideals are of no interest, particularly to them. We have to be reasonable with each other. Let me ask any of you in this room who have got investments, whether you are particularly worrying about a company in which you have not got an investment. You are not worrying about other people's investments at all. You have no share in the profits of such, and they are no concern of yours. But if any of us here have got some shares in some company and we were to see a paragraph in the paper referring to that company, we would leave all the other paragraphs immediately and turn and read that one at once—because we have an interest in that company's success or failure. Now we want to bring this interest



to every man and woman right down to the youngest boy or girl in the factory, and we want to bring this interest right up to the Chairman and Board of Directors of the company. This can only be done by co-partnership."

While these pages are going through the press I hear of two changes in connection with this scheme. One is a most happy development in the direction of shareholding by the workers. The other relates to trouble with certain Trade Unions, which I hope may be got over before this book appears. In any case it does not affect the soundness of the principle of co-partnership.

#### ARMSTRONG, WHITWORTH & Co.

One of the most remarkable cases of profit-sharing without co-partnership in the United Kingdom is that of the great firm of Sir W. G. Armstrong, Whitworth & Co., Ltd., the celebrated makers of armaments, of the Elswick Works, Newcastle-on-Tyne, whose capital exceeds £4,000,000 in shares, besides £2,500,000 in debenture stock. It is not, however, ordinary profit-sharing, but what is called "deposit profit-sharing." The company receives from

its employees' deposits from time to time of a limited amount; the total which any man may deposit being fixed in relation to the annual amount of his wages. On these deposits the company pays a fixed minimum interest of 4 %, together with a second dividend equal to half the amount by which the dividend on the ordinary shares of the company exceeds 4 %, but so that interest and dividend together shall not exceed 10 %. For instance, if the shareholders of the company receive 10 % in any year, the workman gets on his deposit 4 % plus the half of 6 %; in other words, he receives 7 % altogether. In this way the workmen have received a high rate of interest on their deposits, and the scheme has been a success. It was first started many years ago by the firm of Sir Joseph Whitworth, and passed into the Armstrong Company when the two businesses were amalgamated. At the end of 1911 the employees numbered about 15,900, and of these 2788 had deposited with the company £241,788. This system gives them a direct interest in the profitable working of the business and a very great stimulus to saving, but it will be seen that it does not reach the mass.

## CHAPTER VI

### GUISE AND FRANCE GENERALLY

FRANCE is the classical country of profit-sharing, although there are more known instances of it at the present day in the United Kingdom, and some of importance in almost every country. I therefore devote this chapter to some examples of profit-sharing and co-partnership in France, and to a French view of the subject. I have already described fully the system established by Leclaire, which first called general attention to the principle. He, we have seen, carried profit-sharing a long way on the road, not merely to co-partnership, but to complete democracy in industry. The example I shall now give is that of the Familistère at Guise, the great iron works which by co-partnership has become co-operative; and which is noted throughout the world for its highly developed insurance and social institutions, as well as for the great buildings, with their beautiful surroundings, in which

the workmen have their homes. Co-partnership at Guise came ten or twelve years later than in Leclaire's business, but it is on a greater scale, is even more widely celebrated, and has carried the organisation of industry in the common interest farther. Between the lives of Godin, the founder of the Familistère, and of Leclaire, there is much in common: each illustrates the saying of Vauvenargues that "what makes a fine life is a great thought of youth realised in maturer years." Each of these men was a working lad who conceived the ideal of doing something for the class from which he sprang, and who nobly carried out that ideal when by skill, hard work and enterprise he became a wealthy business man. Jean-Baptiste André Godin was born in 1817 in the north-east of France, the son of a simple village smith. When eleven years old he left the village school, and went to work at his father's forge; so puny was he at this time that he had to stand on a stool to reach the vice. When he was seventeen he started, according to the custom of the time, his "tour of France," to gain experience in his trade, returning to his native village in 1837. It was a time when social ideals had begun to

spread among the common people, but a time also of frequent unemployment and cruel suffering. Many years later Godin wrote of it :—

“ For me, day by day, returned the hard labour of an occupation which kept me in the workshop from five in the morning till eight at night. I saw in all its nakedness the destitution of the workman, and his needs; and it was in the dejection this brought upon me that, in spite of my small confidence in my own ability, I said to myself : ‘ If ever I lift myself above the condition of the workman, I will seek means to render his life happier, and to lift labour from its degradation.’ ”

The making of heating apparatus was only a secondary part of his father's business, but it seemed to young Godin to be destined to be considerably developed; and he resolved to seek in that direction the business success which, as he saw, was the necessary condition of his projects of social improvement. At twenty-three he started business on his own account, receiving £160 as capital from his father, and employing only two men to help him. The same year he took out a patent to

substitute cast for sheet iron in stoves. This was the foundation of his success : it was the first of a great many patents for the great variety of apparatus which he originated. Six years later, in 1846, he moved his factory to Guise : some thirty workmen followed him there—so that his business was already considerable. All his life he had to fight against formidable imitators, whom he met by incessantly offering the public new and more convenient models. But it has been said of Godin that “the manufacturer in him never smothered the man.” While he was working hard to build up a business, he was studying all the theories of the thinkers. Saint Simon, Robert Owen, and Cabet failed to satisfy him. “The idea of communism,” he wrote, “arises from resentment against the abuse of enjoyments, while others lack necessities. It is the protest of labour, angered by the unjust distribution of the fruits of production. But the hatred of evil is not always the knowledge of good—there lies the defect of communism.”

In 1842 he was first attracted to the writings of Fourier, in whose Theory of Universal Unity he found a far-reaching plan of social regeneration based on the co-partnership of capital, labour, and ability. “It was a

revelation to him : he had found the compass of his life." Soon after the revolution of 1848 and the foundation of the Second Empire, Godin risked one-third of his then capital to help a Fourierist settlement in Texas. It failed utterly and the money was lost, but the failure of one experiment did not shake Godin's faith in the great principle of association : it only determined him to work in the sphere nearest his hand for as much improvement as the state of the world, and the stage of development of men's minds, rendered possible. As an idealist he wished to encourage and exalt labour, but as a practical man he saw that labour can never gain the place to which it is entitled unless there can be created, in all those who work together, a willingness to entrust authority of management only to men of solid ability, and unless each receives in honour and in wealth the exact equivalent of his contribution to the common task. He saw that the free acceptance of such a law supposes in the workers a high degree of mental and moral culture, and that such culture supposes a material position superior to that of the worker to-day. Therefore, by improved housing, education, recreation, and conditions of labour he sought first to improve

the worker's material life, and thereby to raise his value as a worker and a man.

So the idea of the Familistère, not merely of the building and the gardens, but of the whole co-operative association of capital, labour and ability, arose in his mind, and took form between 1856 and 1859. It was an adaptation of Fourier's Phalanstery to the needs of his own business and its employees. But Godin did not wait until he could create a new organisation of industry and new surroundings in their completeness. He early took such steps forward as were immediately possible. He reduced the long working day of fourteen hours then customary, first to twelve and then to ten: he instituted funds, to which he himself contributed handsomely, for sick workers and their wives, for incapacitated workers, and for widows and orphans. In 1859 he commenced the material framework of the Familistère, the left wing of the great building, surrounded by its gardens, in which he and many of his workmen henceforward had their homes. Three years later the central court followed, and in 1877, '82 and '83 still further buildings. In 1876 he introduced profit-sharing. Meanwhile the factory had prospered: the little



workman who twenty-five years before, dreaming of human emancipation, tramped the roads of France, had become one of her chief manufacturers. On August 13, 1880, after twenty years of varied experiments, he formulated in a legal document, and with minute care, the Association of the Familistère, which had long existed in fact.

In 1888 Godin died, and men said that the great business he had built up would go to pieces in the hands of the workmen who had become his partners, and who now became his successors; but it was not so. Nearly twenty-five years have passed, and the business is more flourishing than ever. It is said to be the greatest establishment in the world for the manufacture of stoves and heating apparatus. The works at Guise and a branch establishment in Belgium employ about 2000 men, whose wages amount to about £140,000 per annum: their products are sold for about £320,000, and the profit realised is about £40,000 per annum: the share capital of the Association is £232,000. It is, therefore, \ business of considerable size, and it is continually growing.

I must now describe in detail the profit-sharing and co-partnership system which

Godin established. The Association of the Familistère, like the Maison Leclaire, is what the French law calls a *Société en Commandite*, corresponding somewhat to the limited partnerships legalised in the United Kingdom by the Act of 1907. I shall speak of it as the Society. The official style of the business is *Ancienne Maison Godin, Colin et Cie.*, M. Colin is at present the unlimited partner—in this business there is only one—while the other working partners, numbering 1680, have limited liability; they cannot under any circumstances lose more than the amount of their investment. The profit-sharing is based on the division of the workers into four classes, viz.:—

First-class members, or partners (*associés*).

Second-class members, or associates (*sociétaires*).

Third-class members, or profit-sharers (*participants*).

These first three classes are all shareholders, while the

Fourth-class members, who are not individually shareholders, are known as helpers (*auxiliaires*).

On June 30, 1912, the first-class members numbered 426; the second-class 66; and the

third-class members 1188. The fourth class, the helpers, comprised 926 persons, lads and others, who had been employed for a longer or shorter period at some time during the preceding twelve months. There were also at the time 487 shareholders not employed by the company: these were retired employees, or their representatives, whose shares had not yet been paid out: they are known as "persons interested," (*intéressés*).

The qualifications for a first-class member are: to be able to read and write, to be of good behaviour, and to have worked for the Society and lived in its buildings five years, to be twenty-five years of age, to own £20 in share capital, and to have been elected by the existing first-class members. For a second-class member the qualifications are: to have been three years employed, to be twenty-one years old, to live in the buildings of the Society, to be free from active military service. For a third-class member: to have been one year employed by the Society, and to be twenty-one years old; but not necessarily to live in the buildings. The second and third-class members are admitted by the committee of management and the managing director.

The first-class members are like Leclaire's *Noyau*, a picked band, the backbone of the Society. They constitute its annual general meeting, and give their advice on all important expenditure outside the ordinary operations of the Society, and on proposed improvements: they accept or reject the yearly accounts submitted to them: they appoint the Committee of Inspection, and three members of the Committee of Management: and on occasion they elect a new Managing Director, who is the unlimited partner. Women, no less than men, are eligible to be first-class members.

This putting of the chief power in the hands of a select body not chosen by the whole of the members is thus explained and defended:—

“When endowing his fellow-workers with industrial self-government, Godin knew very well that he was making an experiment whose boldness and novelty might be dangerous to the future success of his ideas of social reform. To hand over to workmen, unprepared by previous education, the conduct of a great industry, threatened by severe and ever-growing competition, was to expose himself to a possible check. Accordingly, the founder

of the Familistère took care only to bring to the direction of the enterprise those whose minds, in default of more systematic training were at least ripened by experience."

The Managing Director has the sole right to sign for the Society, and to represent the Society to the world: he appoints and dismisses its officials, and exercises all the powers which the French law gives to a *Société en simple commandite*. He presents his Report annually to the General Meeting of the first-class members, setting out in detail the operations of the past year, and announcing, not only the business results of the undertaking, but its moral and social position as well, the progress of its schools, the working of its insurance funds and co-operative store, and so forth.

He receives a salary of £600 a year, besides certain interests in the profits, which come, as we shall see, to a much larger sum: he is assisted by, and in certain cases must abide by the decision of, the Committee of Management. This consists of the commercial manager, the works manager, five departmental heads, the chief accountant, the *économe* (or head of the non-commercial

services of the Familistère) and the three members appointed each year by the first-class members. The managing partner is chairman. In certain matters the power to decide is reserved to the committee of management.

The Committee of Inspection consists of three members appointed annually by the general meeting of first-class members. Their duties are to see that the statutes of the society are observed, and that the books and correspondence are in order, and to verify the accounts and balance sheet submitted by the managing partner to the annual meeting. Their duties, therefore, correspond pretty closely to those of auditors in an English company.

The charges on profits after payment of the ordinary expenses, depreciations, etc., are as follows :—

(1) Certain payments (amounting to about £4000 a year) to the various insurance funds of the society. This is in addition to still larger sums paid to these funds and charged to working expenses.

(2) The expenses, about £1200 a year, of the schools maintained by the society.

(8) 5 % interest on the saving certificates, *i. e.* the share capital.

The remainder after these deductions is the net profit, and is divided as follows :—

(a) 75 % of it as a dividend upon the wages of labour, and the wages (*i. e.* the interest) of capital; and (b) 25 % as the reward of ability. The 75 %, however, is subject to such deduction, not exceeding one-third, as may be necessary to keep the reserve fund up to 10 % of the share capital. In practice the annual deduction needed for this purpose is very small, the reserve fund being complete, and the losses falling upon it from time to time being of no great importance.

This was Godin's way of realising the partnership of capital, labour and ability, and it has remained practically as he framed it. It will be noted that Godin put capital in the possession of a workman, who receives a fixed wage for his services, like other workmen, and then receives, like them, a share of profits, proportionate to his wage, and varying with the profitableness of the business. Thus if an ordinary labourer receives at the end of the year a dividend of 10 % on his wages,

capital receives at the same time a dividend of 10 % on its wages, that is on its interest. The interest being 5 %, it would, in the case assumed, be supplemented by a share of profit equal to  $\frac{1}{2}$  %, bringing the total reward of capital up to  $5\frac{1}{2}$  %. Godin's idea was that every one who co-operates in the business should share the profit according to the service rendered; and that as the wage measures the service which a labourer renders by providing his work for a year, so the interest represents the service which the capitalist renders by providing his capital for a year.

But Godin did not put all the workers on a dead level as to the rate of dividend on their wages. He evidently considered that the first- and second-class members rendered services apart from those measured by their wages. To the former, who as we have seen are the active force among the shareholders, and also to other workmen of twenty years' standing, he allowed a double share of profits. To the second-class members, if under twenty years' standing, a share and half. To the third-class members, under twenty years' standing, a single share. An allocation of profit is also made at the same rate upon the wages of the fourth class, the *auxiliaires*,



but it is not paid to them individually. It is paid into the very important insurance and pension funds from which they, and all the workmen, benefit.

In the year 1911-12 the net profit as above defined amounted to £24,948, of which three-fourths was divisible upon wages and salaries and the interest of capital. This dividend worked out at 8·9 % on the interest of capital, on the wages of the *auxiliaires*, and on those of the third-class members. It was 18·55 % on the wages of the second-class members; and 17·8 % on those of the first-class members. The financial results for the previous year 1910-11 were a little better. It is evident, therefore, that a large part of a man's earnings come to him not as weekly wages, but as his share of the profit. Further under this system, of that part of the net profit which is divided between capital and labour, by far the greater part goes to labour. Thus in twenty-eight years ending 1907, out of £300,855 net profit divided between capital and labour, capital received only £28,069. This was, of course, in addition to its wages or 5 % interest, but so was labour's share of profit additional to its wages.

The profit thus paid to capital is paid in

cash : so is that which goes to the insurance funds ; but the shares of profit allotted to the first, second- and third-class members are handed over to them not in cash, but as saving certificates, which are certificates for shares in the capital of the society. I will explain this further directly, but I must now return to the distribution of the remaining 25 % of the net profit. This is the share of ability. It has amounted of recent years to £5000 or £6000 a year and is divided into five parts :—

(1) 4 % out of the 25 % goes to the managing director.

(2) 16 % is divided among the committee of management.

(3) 2 % among the committee of inspection.

(4) 1 % is allocated to the maintenance in the Government schools of girls and boys who have passed through the schools of the Familistère.

(5) 2 % is placed at the disposal of the committee of management to reward useful inventions and improvements, suggested by members for the benefit of the society. There is never a year in which this fund is not drawn on more or less.

The share allotted to the managing director may at first seem small considering his unlimited liability for the debts of so large a business. It brings him in, however, about £1000 a year. This and his salary of £600 a year, the dividend on that salary as a first-class member, the interest on his share capital, and the dividend on that interest, together make a substantial sum. When Godin founded the society in 1880 he ceased to be owner and became managing director. In that capacity he received not 4 % but 12 % of the divisible net profit each year, the business and its profits being, however, very considerably smaller then than now. This continued till 1885, after which, at his own suggestion, the 12 % was reduced to 4 %, the difference going partly to the committee of management in consideration of new work to be done by them, and partly to the maintenance of pupils in the Government schools. The 16 % to the members of the committee of management yields them about £300 a year each, apart, of course, from their salaries as officials, and their other interests in the business. While, therefore, the workman benefits largely, it cannot be said that managing ability is starved.

I said above that the share of profit allotted to members of the three higher classes is paid in the form of saving certificates or shares. As the whole capital of the society has been allotted long ago, this is only possible by buying out the oldest certificates from time to time. In 1880 when Godin established the society he did not give away his property to the workmen, but instituted a system by which they could buy him out. Something in the same way an ordinary manufacturer, growing old, sometimes takes partners who will eventually buy out his capital by means of the profits. The whole of the capital at that time belonged to Godin, and it was provided that at the end of each year, while the workers received Savings Certificates for the amount of the profits falling to them, the money which these certificates represented remained in Godin's hands, to repay him by annual instalments for the gradual transfer of his establishment to the society. It was, moreover, stipulated that when the original capital belonging to Godin had all been repaid to him, the system of distributing profits in the form of Savings Certificates should continue in operation as in the past. The oldest certificates were, therefore, to be repaid in

cash and replaced by new certificates, apportioned to those entitled, from time to time. In virtue of this simple and ingenious arrangement each generation of workers are in turn owners of the establishment, in proportion to the profits which they have been able to realise by their work. The ownership of the workshop thus remains quite naturally, and in an almost automatic way, in the hands of those employed there. This arrangement has been faithfully carried out: the repayment of the oldest Savings Certificates, which were those of the year 1880, began at the end of the year 1894-95, and since then it has continued uninterruptedly.

Under the system of buying out, a large part of Godin's capital had already been repaid to him before his death in 1888, and if he had lived the whole would have been paid out in time. By his will he left £124,000 to the Society: this was the half of his fortune, being all that part which the French law gave him the power to dispose of, the remainder going as a matter of course to his family. His widow remained managing director for six months until her husband's estate had been settled up. A new managing director was then elected, who retained office

till 1897, when M. Colin was elected his successor.

The direct pecuniary advantages involved in the profit-sharing are by no means the only advantages which the Society confers upon its members; but I need not describe here the insurance funds, the schools, the co-operative store, the parks and gardens, the washhouses, and baths, and the theatre : nor yet the united dwellings where each family has its separate home, and at the same time has many advantages derived from the intelligent combination of many homes in one large building. These are a little apart from the special subject of this book, except indeed that while some of them are partly paid for by direct contributions from the workmen, they are also to a large extent maintained out of the profits of the business, and so they form part of the profit-sharing in its widest sense.

The schools, however, deserve a special word. Fifty years ago education was not so much an accepted principle as it is to-day, but Godin made ample provision out of the profits for the education of the children of the Familistère; and this he did for two separate reasons of different orders. "The Founder," we are told, "foresaw that each

generation of workers would seek to assure the benefits of the Association to its own descendants, and that thus, the future prosperity of his work would depend on the education given to the rising generation. Moreover, inspired by a still loftier thought, that of profound respect for human life considered as the highest manifestation of the universal life, he sought to encourage the complete development of the child."

#### LAROCHE-JOUBERT

Another interesting example of profit-sharing in France is that of the Laroche-Joubert Paper Works at Angoulême employing from 1100 to 1200 persons. Its capital is nearly £160,000. The company was founded in 1842, though the business itself is much older. Profit-sharing was introduced in 1843, so that it is of seventy years' standing. The managing partner of those days had found that by the introduction of piecework, and bonus on quantity produced, the output was increased in certain cases more than 100 %, and the total wages earned by the men more than 40 %. This encouraged him to introduce profit-sharing, first with the foremen, and later with the workmen of longest stand-

ing. It is now extended to all permanent workers, not under 18 years of age. The wages paid by this business are at least as high as the district rate, and are wherever possible piece rates or task wages, or vary with the amount of first-class paper produced. It is therefore an instance of profit-sharing being added to methods of remuneration which are sometimes advocated as rivals of profit-sharing. From the gross profits the following deductions are made :—

- (i) A dividend on capital limited to  $4\frac{1}{2}\%$ .
- (ii)  $5\%$  of the gross profits to Reserve Fund.
- (iii) 10 to  $25\%$  of the gross profits to a Depreciation and Redemption Fund.

The net profits remaining are then divided as follows:  $25\%$  to capital,  $25\%$  to the managing directors and the committee of management, and  $50\%$  to the employees.

The employees' part is divided among them in proportion to their wages or salaries, the length of their service and the importance of their work: each man's earnings are recorded, but if he has more than ten years' service he receives a share of profit not on the exact amount of his wages, but on a sum  $10\%$  more than his wages; if he has fifteen



years' service, on a sum 20 % more than his wages, and so on up to 50 % more, if he has thirty years' service. Similarly, in order to recognise the importance of each man's work, his share of profit may be paid on the exact amount of his wages, or on a sum half as much again as his earnings, twice as much, two and half times, or three times as much, according to a carefully defined scale. His profit is payable in cash; but he may, if he likes, deposit it up to a certain amount with the company, at a rate of interest either fixed, or fluctuating with the profits of the business. Moreover, if he has accumulated £40 he may be admitted a limited partner (*commanditaire*) in the business, each share being of the nominal value of £40.

There is a committee called the co-operative council, consisting of directors and managers and representatives of the men. Its functions are consultative, and it gives its advice on questions relating to the profit-sharing and to the internal regulation of the works, workshops and offices. It is called together by the directors several times a year, and these frequent opportunities for the directors, managers and workmen to discuss matters are found most useful. All the employees

are insured by the company against accident, and every man is required, and helped financially, to join a Friendly Society. There are a number of funds and institutions for the benefit of the employees supported by the business.

The profit-sharing in this firm is therefore on a very complete plan, and co-partnership is freely open to the workers; but they are not compelled to take up shares, even in the sense of their bonus being automatically accumulated in share capital. With a partial exception during the first five years of service, they are free to withdraw their profit. Unfortunately from the co-partnership point of view we find that in 1910 of the 1100 to 1200 persons employed only 82 were shareholders, and of these, 21 were employees of a superior grade. The remaining 61 were workmen, clerks or other employees holding subordinate positions. These 61 owned among them £11,860 in the share capital, an average of nearly £187 per man; a very satisfactory figure in itself. The 21 superior employees, together with 47 ex-employees of the firm, held among them £39,480. Thus nearly a third of the share capital belongs to employees or ex-employees. The employees have also considerable sums on loan to the

business. The shareholders among the ordinary workmen are, however, few; and this example, and many others, cause one very gravely to doubt whether the average workman will take shares, if it is left entirely to his discretion. In some cases no doubt this is due to his having a better use for the money, or to his preferring to leave it as a loan which can easily be withdrawn in case of need; but it is to be feared that in a great many cases it is simply a want of forethought, a yielding to the ready temptation to live up to one's income, and to regard the profit, which will probably come at the end of the year, as part of that income. Comparing the small number of the workmen who are shareholders in the Laroche-Joubert firm after seventy years of profit-sharing, with the fact that in the Familistère every profit-sharer becomes a shareholder by the automatic accumulation of his share of profit, we see the enormous advantage which such automatic accumulation has: indeed we see the absolute necessity of it, if the status of the average workman is to be raised by profit-sharing from that of a wage-servant to a partner. This probably applies to Englishmen even more than to Frenchmen.

I would not, however, be thought to make light of the results achieved in the Laroche-Joubert firm. Those who are responsible for the business give good reasons for being satisfied with them. "The results," says one of the chief owners, "are shown by the continuous growth of our workshops, by the fewness of the changes among our employees, by the considerable number of workmen who continue without interruption for thirty years in the service of the company." He might have added, says M. Trombert, secretary of the French society for the study of profit-sharing, by the considerable amount of the men's savings, which shows to how high a point the material well-being and the spirit of thrift are developed among the workers of the firm. Never in the whole period of its existence has there been the slightest suggestion of a strike in this business. If any misunderstanding has arisen, it has been readily cleared up; and this M. Laroche-Joubert attributes to the working of their system. The workmen's earnings are also considerably augmented; and as we have seen, they have considerable sums in the loan capital, besides the shares belonging to a limited number of them.

In 1910 Professor Charles Gide, of Paris, issued a booklet entitled *L'Actionnariat ouvrier*, meaning "Workmen's shareholding," in which he gave an account of, and a most valuable criticism on, the various methods employed in many countries to make workmen shareholders in the businesses employing them, these methods being : (1) by simple purchase of shares by the workmen; (2) by profit-sharing and the accumulation of the workmen's bonus in the capital of the company; and (3) by attributing to the workmen certain shares directly in consideration of their service and not because they introduce any capital into the business. Of these three, he found that by far the best hope lay in profit-sharing, together with the automatic accumulation of the profits so shared, as is done in the Familistère at Guise, or, under slightly different conditions, in the English Gas Companies. He found in such co-partnership, and in the growth of purely working-class co-operation, a hope of creating, as it were, co-operative islands in the sea of competition, which would attract the best elements both of the capitalist and the working classes, and so gradually extend and strengthen themselves. Thus after another fifty years' experience he came

to much the same thoughts and hopes as those of John Stuart Mill.

The third possible means mentioned, though not advocated, by Professor Gide, has very special interest in 1913, for it has just been embodied by the French Government in a Bill to allow the creation of a new form of company, to be added to the forms already recognised by the French law. Companies of this kind will be called *Sociétés à participation ouvrière*, that is to say, companies with workmen's participation. The adoption of this form when constituting a company will be entirely optional, but if adopted, a certain proportion, not less than one-fifth, of the shares of the company are to be set aside as the collective property of the workmen and others permanently employed from time to time by the company. These labour shares will not represent capital paid in by any one, nor can they ever become the individual property of any one. They will receive dividends at the same rate as the ordinary shares, and these dividends will belong to the persons in the permanent employment of the company. The employees (through their delegates) will also vote in respect of the labour shares in the general

meetings of the company; and at least one-fourth of the Board of Directors must be representatives of the workmen. In the event of a liquidation of the company, the capital shares are first to be repaid in full; then if there is any surplus both classes of shares will receive their proportion of it. That part belonging to the labour shares will be divided among those who have been employed for ten years, or for half the life of the company.

Some such proposals have been foreshadowed in France for some years, advocated by various public men, and even indicated as possible by previous Governments. It has even been proposed that where concessions are granted by the State to a new mining or other company, some such profit-sharing arrangement shall be compulsory. There is no compulsory element in the present Bill, but societies so formed are to be exempt from certain taxes and to enjoy all the advantages accorded to co-operative productive societies. Profit-sharing and co-partnership have, of course, long been practised under French law, but the form of company proposed is something new : it is more than profit-sharing and very different in many ways from co-partner-

ship as we know it. As a sign of the times the proposal is very interesting and suggestive, but unfortunately there seems little chance of its passing into law : it will apparently be opposed by the extreme wings of both capital and labour.



## CHAPTER VII

### IN THE UNITED STATES OF AMERICA

No doubt the United States contain many cases of profit-sharing unknown to me, as they certainly contain important examples of Welfare Institutions, started by the employers for the benefit of their workers, and paid for out of profits. But Welfare Institutions are not necessarily profit-sharing, much less co-partnership, and for profit-sharing, in the ordinary sense, it does not seem that the United States are at present a very favourable soil. Probably, as in England in the early Victorian period, the material development of the country has been too rapid, the increase in the production of wealth too great, and the openings for men of ability, even without capital, too tempting, for many of the most active minds to concern themselves much with improvements in industrial relations, and the system of sharing wealth. Nevertheless there have been in the past a considerable number

of experiments, and at the present day there are a few remarkable instances of profit-sharing and co-partnership, in the strictest sense of those words, while the offering of stock to employees "on attractive terms" is now, according to the *Wall Street Journal* of Oct. 4, 1912, "quite general among large industrial companies." The object in this last case is, of course, the same as in co-partnership, viz. to harmonise the interests of employers and employed, and give the latter a share in capital. "Attractive terms," moreover, clearly approach, and may merge into, true profit-sharing.

Among the cases which are true co-partnership, the most remarkable is that of the N. O. Nelson Manufacturing Co., of St. Louis, Missouri, manufacturers of steam and water brass goods, tubes, lead and iron pipes, hydrants, and plumbers' goods generally, rubber and leather belting, steam pumps, engines and boilers, who employ about 1200 people and sell goods to the value of more than \$4,000,000 (*i. e.* £800,000) annually, and have a share capital of \$1,181,375 nominal, and a surplus of \$631,484. The late Professor N. P. Gilman's book, *Profit-sharing between Employer and Employed* (1889), tells us that

“ Mr. Nelson, who is a self-made man, of Norwegian birth, issued to his employees on March 20, 1886, a circular stating that the firm would divide profits with its men, for one year from the 1st of January, on this basis: Capital should receive 7 % interest, and the remaining profits should be divided between capital and wages in the proportion which these bore to one another. Six months' service would give a claim to a share. The custodian of a contract to this purport, chosen by the men, was authorised to examine the closing of the books at the end of the year. On the evening of Jan. 22, 1887, Mr. Nelson handed the men \$4828 as their dividend, certified by Mr. Wells, their representative. The great railroad strike of 1886, the building strikes, and the eight-hour movement had operated to reduce the dividend. The number of participants was about 150; each of these received 5 % on his year's wages, in cash or in the form of an interest-bearing certificate. More than two-thirds of the men chose to leave their dividends in the business. The individual shares of wage-earners varied from \$27 to \$46.

“ The first year's scheme was purely introductory: it was elaborated for the second year by adding provisions that one-tenth of

the profits left, after allowing for interest and management, should go to a provident fund for the disabled and the sick, and the families of deceased employees; that another tenth should be set aside for meeting losses or paying dividends in unfavourable years; that one-fiftieth part should fall to a library fund; that the employees who had taken certificates for their 1886 dividend should receive a bonus one-fourth larger than the regular dividend on wages; and that the required term of service should be raised to ten months. Mr. Nelson thus states the results for the second year of profit-sharing under the modified plan: 'After making full allowance for wear and tear, possible bad debts, interest on our capital, etc., there remained something over \$30,000 to divide. Of this \$3000 was set aside for a relief fund, and we are now regularly caring for the families of those who have died or are disabled. This is done under the supervision of a committee of the employees. I find that they are just as discreet about it as I could possibly be. Three thousand dollars were set aside as a special surplus fund. This fund will be kept growing during good years, and thus be on hand to help make up for losses,

or help pay dividends in poor years. Six hundred dollars were set aside for a library fund. After all these deductions, there remained a dividend of 10 % on the preferred class, namely, those who had earned a dividend in 1886 and had left it in the business, and had continued in our employ throughout 1887. All others received 8 %. Those who held dividend certificates for 1886 received 15 % dividend on that certificate, representing 7 % interest and 8 % dividend. They were given the same privilege of leaving their dividends in the business, and about 80 % so left them. There is the most perfect satisfaction on both sides, and perfect unity of feeling. . . . I am satisfied beyond any question that the system is right and judicious, whether regarded from a moral, or a purely commercial, standpoint.' The shares of the individual employees, on wages for 1887, varied from \$60 to \$125. Any one who earned \$15 a week in 1886, and took a certificate for his dividend, earned thereby \$21.45 in 1887, and was \$60.45 better off than if he had drawn and spent the money, according to Mr. Nelson's calculation." The bonus for the third year, 1888, was 8 % on the wage of the preferred class, and the divi-

dend on capital 15 %, that is 7 % interest plus 8 %, corresponding to the bonus on wages. At this date the firm employed about 250 people.

The practice of profit-sharing has continued ever since and been developed on unusual lines and with very remarkable success. From 1886 to 1904 inclusive the firm continued on the same lines as described by Professor Gilman, with one important exception, that whereas in the first two years the dividend on wages was paid in cash, and the investment of it in the business left to the discretion of the employee, after that time the dividend was paid in stock only. In 1905, however, the system was entirely transformed by the admission of the customers of the firm to share in the profits, and thereby to become stockholders, and to be represented on the Board of Directors. The circular issued by Mr. Nelson at that time is one of the most remarkable documents of its kind ever issued, and well worth reprinting here. It reads :—

“ TO CUSTOMERS,

“ This Company adopted a profit-sharing system with its employees in 1886, and has

paid for the entire nineteen years dividends ranging from 4 % to 10 % per year on each one's salary or wages. It has now decided to take the customers also into partnership.

“For the year 1905 we shall divide our profits (beyond 6 % interest on capital) in the proportion of 1 % on wages and salaries, and 1½ % to customers on the gross profits on their purchases. The profits on all our sales are figured. A ledger account will be kept with each customer, showing the amount of his gross profits, and at the end of the year footed and figured on in the same manner as the wages. . . .

“Gross profit is made the basis instead of purchase, because some goods bear much lower profit than others. These dividends will be paid in my stock of the Company at a price on which the average net earnings of the next preceding three years would yield 6 % net, or in 6 % preferred stock. [The alternative is now given of receiving these dividends, if desired, in “Treasury Stock” at par.]

“I have been the active head of this business for over thirty years. I am the owner of as much or more property than I want. It has been made by the co operation

of the employees and the customers. I now want them to have the benefit of it.

“As the business has been for several years, and is now, and looks for the future, it should take a very few years to pass it entirely into the ownership of the employees and the customers. It can be made more and more profitable by this mutual interest, and this additional profit goes entirely to those who make it.

“No customer is placed under any obligation. He need not buy unless the prices and quality and service suit him. No salesman will ever hold out the dividend as an excuse for high prices. Whatever your opinion may at any time be of the prices of the house, please do not lay it to the profit-sharing plan. In our business of over two million a year, there are many small accounts, the dividends on which it would be cumbersome to figure and impossible to issue stock for. Purchases amounting to less than \$100 within the year will not be counted. Dividends of small fractional parts of a share will be held on deposit until made up to half a share.

“All our purchases are made for cash, we discount all bills, our factories are complete, we try our utmost to make the very best quality and give good service.



“ The managers, the salesmen, the foremen, and clerks, the workmen and customers, will be mutually interested, and ought each to be an advantage to all.

“ There will be no change in the operation and methods of the Company, nor in its management. . . .

“ Yours very truly,

“ N. O. NELSON.”

From the point of view of co-operative theory this extension of co-partnership not merely to employees, but to customers, is deeply interesting. There are, as is well known, two schools of co-operators, basing themselves on two separate theories of co-operation. The consumers' theory would base all co-operation, whether distributive or productive, on the consumer; while the co-partnership theory seeks to build upon the threefold base of the producer, the consumer, and the provider of capital, making these three partners in the profit and control of their enterprises. It is not very often that a captain of industry, like Mr. Nelson, admits his employees to partnership with him, but it is rare indeed that he extends such partnership to his customers : rare, at any rate, that

he does so by means of profit-sharing, though it is not at all rare, when businesses are converted into limited liability companies, to invite the chief customers to subscribe for shares.

If it be objected that Mr. Nelson's action was merely a giving away of his property, the answer is that he did not give away his capital, but sold it little by little to his employees and customers. In much the same way Leclaire and Godin sold the capital of their businesses, little by little to their employees (but not to their customers) taking payment out of profits. In the same way a large proportion of business men when they wish to retire sell their businesses, not indeed to the general body of their employees, but to some one or more of the leading employees, or junior partners, to be paid for out of profits. The generosity of Leclaire, Godin, and Nelson, noble and inspiring as it is, may still claim to be "business." Business certainly does not mean giving away your property; but equally it need not mean holding on to the reins and the money-bags till they drop from the dead hand. Co-partnership may be considered most perfect when it hits the happy mean between these two.

For the last eight years, then, in the N. O. Nelson Company the system of dividing profits has been as follows: The company pays 6 % on its share capital. Depreciation and Reserve Fund, or "Surplus," are of course provided for, but no interest is paid on the surplus, which now amounts to about 50 % of the amount of the share capital. The remaining profit was until 1911 inclusive divided in the proportion of 1 % on wages and salaries to  $1\frac{1}{2}$  % on the gross profit which the company had realised upon the purchases of its customers. For 1912 the percentages on wages and gross profit were equal, and it is intended that that should be so in future. Both these dividends on wages and gross profits respectively are payable not in cash, but in shares, which are registered in the name of the particular employee or customer, fractional amounts being paid temporarily in deposit certificates. The rates of dividends on wages from 1905 to 1912 inclusive have been 15 %, 25 %, 30 %, 20 %, 20 %, 10 %, 10 % and 15 %. The total amount of the dividends on wages for the eight years was practically \$451,000. The customers' dividends for the same eight years were 25 %, 45 %, 45 %, 30 %, 30 %, 15 %, 15 % and

15 % on the amounts of the gross profits on their orders, and it must be noted that the gross prices charged are merely the market prices of similar goods. During the first two years these dividends to customers were made a little larger than their exact proportion, "to give them a start and a little towards catching up." The amount of their (*i. e.* customers') dividends issued in stock and certificates to the end of 1912 was \$525,000. The amount of the cash dividends paid to customers on the stock acquired as above was \$110,000. Besides the above, the sum of \$14,283 was paid to, or for the benefit of, sick and disabled employees during the years 1905 to 1911. Of the 1200 employees, men, boys and a few women, about 800 are stockholders, owning about \$400,000 of stock and certificates. From time to time new factories have been added, especially sanitary ware ironworks in Indiana, and new branch establishments on the Pacific Coast, and in the Southern States. All the employees in these, including about 125 negroes at Bessemer, Alabama, stand on the same footing as to profit-sharing and co-partnership. "I have adhered," Mr. Nelson writes to me, "rigidly to the original Rochdale ideas and plans in

all my co-operative efforts . . . and have, I think, gone farther in genuine co-partnership than any concern I have read about. In the case of Godin and Leclaire, which were my immediate progenitors, they exclude from an equal interest so large a majority of the employees, and give the power to so small a circle that I am disappointed." On this I should comment that in Leclaire's case every workman receives a share of profit, and that share, so far as the 50 % of profit paid as dividend on wages is concerned, is proportionate to the work he does: In Godin's the whole capital belongs to the permanent employees—who are the majority—or ex-employees; and the whole profit goes to, or for the benefit of, the whole of the employees, in various proportions, depending chiefly on seniority and merit. It is, however, true that in both those cases the effective power is in the hands of a comparatively small number of employees; and the benefits, derived from the profits, are on a higher scale for the permanent employees than for others; while the customers are not represented in the capital or on the Directorate.

Returning to the N. O. Nelson Company, the shares thus acquired by employees and

customers out of dividends carry the same voting power as shares in the original capital : they now comprise two-thirds of the share capital of the company, which capital, together with the surplus, amounts to about \$1,768,000. Both employees and customers are represented on the Board of Directors. The employees, without counting their share of profit, receive as high wages as in other concerns, and work 10 % shorter hours than the current practice. They are and always have been perfectly free to join any trade or other society they choose; but as a matter of fact none of them are trade unionists, except the marble and tile setters for building construction work, who number only about fifteen or twenty. In this connection Mr. Nelson wrote in the very early days of his system: " Our men belong to anything they choose. That is something with which we do not interfere. Trade Unions have prevented the trades from being crushed to starvation wages. The proper Union, to my mind, though, is the one in which we and our employees are joined. . . . Our men could not be induced to strike by any inducements which could be held out to them. . . . It is a solution of the labour problem on business lines, and every employer

that takes it up will agree with me that it is so."

There remains to mention an attempt made by this firm to carry the workers' interest in one of its departments, beyond co-partnership, to the self-governing workshop, by making the workers the sole owners and the sole managers of their factory. Many employers have essayed to create model villages in connection with their factories, and accordingly in 1890 this company acquired 125 acres of farm land, adjoining Edwardsville, about eighteen miles from St. Louis, for a new industrial village to which it gave the name of Leclaire. On the greater part of this land it has built a most successful model village, where the workmen own their own houses, where the policeman is unknown, and sickness and the death-rate are reduced to almost incredibly lower figures. I must not, however, describe that here. On the remaining land they soon erected half-a-dozen factories for various departments of their work. In 1895 they offered to sell the first established of these, the cabinet factory, to the employees therein on easy terms of deferred payment. At first the workmen declined the offer, but shortly afterwards

asked for it to be renewed. This factory was accordingly set up as a self-governing workshop; and Mr. Nelson intended to give independence to the remaining factories of the firm in the same way later. The experiment, however, was not a success, and was shortly abandoned.

When the offer to sell the factory was first made to the workmen and declined, part of their objection was to the idea of "going alone," and this seems to have been a sound instinct. In certain important cases workmen, starting on their own account, have established successful co-partnership workshops of their own: not often, however, without the help of outside investors. The difficulties of the task are great; the problems of co-ordinating such a co-operative workshop with others in the same trade, and connecting it with the open market, or with organisations of consumers, are very hard to solve. Where a factory is already part of a successful organisation of allied trades with a commercial unity, and with established relations with the consuming public, the introduction of co-partnership in no sense requires the breaking up of such organisation. Moreover, if it is a difficulty for workmen to start for



themselves, it is, I believe, almost impossible to find a case of a body of men instigated and financed from the outside, and successfully launched as a purely co-operative workshop.

The cabinet factory, therefore, reverted to its former position as one of the departments of the N. O. Nelson business: nor was the experiment ever repeated with any other of the firm's factories. Surely to be part of a highly organised business in which labour, capital and the consumer are all factors and co-partners, is a higher thing than to be one section of the producers, cut off from other sections, and from the consumers, by quasi-independence.

#### PROCTER & GAMBLE

Another very remarkable instance of co-partnership in the United States, but on quite different lines, and affecting employees only and not customers, is that of the Procter & Gamble Co., of Ivorydale, near Cincinnati; of Port Ivory, Staten Island, New York; and of Kansas City, etc., etc. This firm, one of the largest and oldest makers of soap, candles and glycerine in the United States, was founded in 1837, and incorporated in 1890, with

\$4,000,000 capital. Its capital in May 1913 was \$14,250,000, and the number of its employees 2500. In 1900 Professor Gilman wrote : " The company has every convenience and facility for the economical manufacture and transportation of its products that modern art and science can supply, in the way of the finest machinery, railway trucks and locomotives of its own, and the utilisation of all waste matters. There are some 600 workpeople at Ivorydale, and 100 more in the Cincinnati office and on the road. Soap-making does not demand much skilled labour : wages are comparatively low for this reason, averaging \$10 per week for men, \$4.75 for women, and \$3.50 to \$7 for boys." The rates in May 1913 were—men \$12 and upwards; women \$6 and upwards; and boys \$5 and upwards; being the average rates for unskilled labour in the locality. Its four main factories now comprise about 100 buildings, and " a genuine attempt," Professor Gilman said, " had been made to apply the principles of art and to beautify the daily surroundings of the people."

In the year 1886 the firm had much trouble with its employees, mostly, as we have seen, unskilled labourers : there were fourteen

strikes, involving from 11 to 114 workers, and arising from "all sorts of trivial causes." The next year it adopted profit-sharing in the hope of securing relief, and establishing friendly relations with the employees. "The plan," we are told, "was accepted by the employees in a half-hearted way, and without any belief that it would be of material benefit," and though the bonuses divided were large, but slight and temporary interest was excited by them among the workpeople. In October 1889, to put an end to this indifference, the company divided them into four classes. The first class consisted of those who tried to prevent waste, do better work and advance the interests of the business; these were to receive a dividend at twice the rate of the second class, which comprised the general run of the employees. Those who did not show much interest formed the third class, and received only half dividend; while the careless and wasteful received none. This classification apparently produced good results.

However, when the business became incorporated in 1890 the plan was changed; the workman was given the same dividend on his wages as the common stock earned. This

at that time was normally 12 %. The classification of workers was given up, "having accomplished the desired effect," but the right to withhold the dividend for cause was reserved to the company, and waste by an employee was to be charged against his dividend. The number sharing in profits rose from 225 in 1887 to 550 in January 1899, being then fully 92 % of the whole of the employees. The employee was, moreover, encouraged to become an owner of stock; and it was along this line of co-partnership rather than simple profit-sharing that the experiment was to prove a great success. The rest of the story is best told in the company's own words. Writing to me in September 1912 they said :—

"A profit-sharing plan was tried first in the factory of the firm of Procter & Gamble, at Ivorydale, Ohio, in the year 1887; at that time it consisted in effect of a semi-annual distribution of cash, in amount equal to a percentage of the employees' wages, the rate of dividend being dependent upon the earnings of the firm; later, after the incorporation of the Procter & Gamble Company, in 1890, the rate was fixed at the same as that paid upon the common stock of the company.

The profit-sharing plan was at first extended to all employees, but very soon was limited to those earning \$1500 per annum, or less.

“The weakness of the plan mentioned above was that in a large percentage of the cases no portion of the profit-sharing dividend was either invested or saved—there was no enforced saving, so that after a few years the employees came to look upon their profit-sharing dividend as a part of their income, upon which they could rely in much the same manner as their salary. For this and other reasons the necessity for a radical change was felt; and in the year 1903 a plan for profit-sharing dividends through stock ownership was adopted, which, with slight modifications, is in force at the present time, and may be considered, so far as this business is concerned, an unqualified success.

“The plan requires that an employee, to be eligible for a profit-sharing dividend, must own common stock of the company [equal] at its market value to the amount of a year's salary; if the employee does not own this amount of stock, the company will buy it for him, requiring a small payment [ $2\frac{1}{2}$  % of the cost price] in cash when the purchase is made, and a moderate annual payment

[not less than 4 % of the total amount of his subscription] each year until the stock is paid for in full, interest in the meantime being charged against the employee on his unpaid balance at the rate of 3 % per annum. The employee is guaranteed by the company against loss through decline in the market value of the stock, and receives as credit the dividend on the stock, and a profit-sharing dividend of 12 % [per annum on his wages], which are applied towards the payment of his stock until the same is paid for in full, after which the ownership of the stock is vested in the employee, and all dividends [including the profit-sharing dividend which continues] are paid to him in cash.

“After the employee has been a participant in the plan, or an owner of the common stock of the company for five years, he is entitled to subscribe for 25 % additional stock, and to receive a profit-sharing dividend of 15 % [per annum on his wages]; and after ten years to subscribe for a further 25 %, and receive a profit-sharing dividend of 18 % [per annum on his wages].

“The majority of the employees of the company have taken advantage of this opportunity, and are receiving profit-sharing divi-

dends as well as the regular dividends which are paid to all holders of the common stock of the company. The employees are now the actual owners of approximately 2500 shares of stock [of the nominal value of \$100 each], upon which the present market value is about \$1,000,000."

That was in September 1912. Until February 1913 the dividend paid on the Common Stock of the company was 12 %, and the lowest profit-sharing dividend was 12 % also. Since then the dividend on stock has gone up to 16 %, and the profit-sharing dividends have been raised correspondingly from 12 %, 15 % and 18 % to 16 %, 20 % and 24 %. The total of stock an employee can apply for under the scheme is 150 % of his annual wages. When the stock applied for is fully paid up he may leave it in the names of the trustees, in which case he continues to receive his profit-sharing dividends, but has no vote as a shareholder; or he may take a transfer of the stock and vote like any other shareholder; but in that case he is not entitled to any further profit-sharing dividends. In July 1913, of the employees on the pay-roll, both men and women, a majority in number, representing about 80 % of the wages paid,

were stockholders or subscribers to stock. It has been found difficult to get the less intelligent (and therefore less highly paid men) to realise the advantage of the scheme. Workers held approximately 3000 shares, of \$100 each nominal value, worth \$1,650,000 in the market. The greater part of these shares were not yet fully paid for, as it takes about five years to pay for shares under the above arrangements.

It is evident that this experiment is a very remarkable, and indeed a very great one. The question, however, arises whether it is to be classed as co-partnership and profit-sharing in the strict technical sense of those words. I certainly think it must be. First the selling of shares to employees on more favourable terms than to the public is reckoned by the authorities to constitute profit-sharing; and this seems to be a correct view, in proportion as the terms are really favourable. In this case, they appear to be very favourable, chiefly because the employee by buying shares qualifies for the large bonuses of 16 %, 20 %, or even 24 %, on his wages. These bonuses, though called "profit-sharing dividends" in the above letter of the firm, are called "Trust Receipt Dividends" in the



printed regulations : it is not provided that they are to rise and fall with the rise and fall of the company's profit, but as a matter of fact when that profit was 12 % the lowest dividend on wages was 12 %, and when the profit rose to 16 % so did the lowest dividend on wages. At any rate they do most clearly constitute " specially favourable terms " on which the shares are offered to employees. In another sense, a logical rather than a technical sense, it would be argued by some people that this plan is more really profit-sharing than the ordinary plan of paying a bonus to all employees in proportion to their wages, without regard to their individual zeal. I mean that the employee who has made himself a shareholder probably contributes to the profit of the business by specially good service. Both technically and substantially, therefore, the system amounts to profit-sharing and co-partnership, and it is a very remarkable proof of the money value which this company sets upon the cordial co-operation of its employees. It seems clear that if the system be continued the employees will in a few years acquire a large part of the capital. It is fair to assume that the Directors consider the system

advantageous to the existing shareholders : if in addition it enables the employees to accumulate such a considerable amount of capital, it shows how large a margin of waste and loss there is under the ordinary wage-system.

The Company write to me that it has been their belief "for a great many years that every form of whatever you may call it—welfare work, employees' assistance, or what not—should be with the intent to enable the individual to aid himself, the arousing of an enlightened self-interest as it were, and the company has kept purposely and consistently away from all manner of paternalism or cloaked charity, such as cottages, free medical service, etc., etc."

## CHAPTER VIII

### THE AMERICAN TYPE

THE two examples of co-partnership in the United States given in the last chapter are very different from most of those found in other countries. I turn now to two examples on lines quite familiar to English profit-sharers; and then I will deal with what would appear to be the typical American attitude towards the whole question.

An instance of Deposit Profit-sharing without co-partnership in the United States—similar in principle to the arrangement of Sir William Armstrong, Whitworth & Co. described above—is found in the Houghton Mifflin Company of Boston, and of the Riverside Press, Cambridge, Mass. Ever since 1872 this firm has had a savings department for the benefit of its employees. An employee may deposit from time to time up to a sum of \$1000: beyond that no one may deposit, though he may allow interest to accumulate up to another \$600. The company pays 6 %

on the deposits, and in addition whenever on the 1st of January of any year the deposits of any depositor equal or exceed \$100, and remain one year thereafter, the company pay to the depositor an extra allowance based on a proportion of the profits. This extra profit does not usually exceed 1 %, though in the early years it often reached 4 %. It is not paid on sums exceeding \$1000. The savings department is open to all the firm's employees, and in May 1913 about 224 of them were depositors, out of a total of about 880.

Boston offers another instance, which seems to be on almost the same lines as the English Gas Companies. It is that of the Boston (U.S.A.) Consolidated Gas Company, which has had a scheme of profit-sharing and co-partnership since 1907. The company works under a Sliding Scale Act, which fixes as the standard price 90 cents per 1000 cubic feet of gas, and as a standard rate of interest 7 %. For every reduction of 5 cents below the 90 cents the company may pay 1 % additional dividend, if it earns it. The dividend on wages is calculated at the same rate as the dividends on the company's stock. It is not paid in cash, but an account is kept of the dividends credited to each man, and interest

calculated at 4 % is added. As soon as the amount is sufficient to purchase one or more Preferred Shares of the Massachusetts Gas Companies, this is bought in the open market. The Massachusetts Gas Companies is a holding company which owns nearly all the stock of the Boston Consolidated Gas Company, as well as the stock of other gas companies and coal companies in the state of Massachusetts. The share is handed over to the worker as his absolute property, except that if he sells it without the consent of the directors he may be struck off the list of profit-sharers for a year or more. The company is also ready to receive additional deposits from workers towards the purchase of shares, and on these deposits also it pays 4 %.

All employees who have been two years in the service of the company are eligible to participate, provided that in each case their work has, in the judgment of the Directors, been such as to warrant it. On July 1st of each year the Directors, with the advice of foremen and others in a position to judge, determine which of the employees are entitled to receive premiums for the preceding year. "It is the intention and desire of the Directors ultimately to include as profit-

sharers all employees who are in their judgment temperate, energetic, honest, capable and efficient." On June 30, 1912, the company employed 1186 workers, a number of them only temporary: the total varies considerably from year to year. Of these 591 were profit-sharers, being just under one-half.

In 1907 (9 months)	{ dividend on wages was }	£5,206	{ being at the rate of }	7%
1908 (12 months)	"	£8,797	"	8%
1909	"	£9,765	"	9%
1910	"	£9,448	"	9%
1911	"	£9,645	"	9%
1912	"	£10,178	"	9%
		Total	£53,039	

With regard to the worker having a share in the control, an account of the scheme given by the company in June 1911 said:—

“ REPRESENTATIVE OF EMPLOYEES ON  
BOARD OF DIRECTORS

“ The logical extension of the plan by which employees secure an ownership in the business is to have them represented on the Board of Directors in order that they may have a voice in the management of the company. Accordingly, the company has recently invited the nomination on the part of the profit-sharers of a representative of their own

selection to serve as a Director of the company during the coming year.

“ This plan has been patterned largely on that so satisfactorily employed by some of the London companies, where it has proved eminently successful. It is believed that this direct participation in the management of the company will still further serve as an incentive to the employees to increase their efficiency. If they feel that their own individual effort will result in increased profits to them, and that their own interests are represented on the Board of Directors by one of their own number, they are bound to work more cheerfully and effectively. The value to any business of increasing the intelligent and carefully directed effort on the part of its employees cannot be over-estimated, and in the case of our company the operation of the profit-sharing plan has been a great factor in effecting the desired result. We believe that by dividing our profits, on the one hand with the public in the form of reduced prices, and on the other hand with our employees by a dividend on their wages, we have created such a joint partnership among the public, the employees and the company, that every effort on the part of the management and the

employees will be directed to the mutual advantage of all the partners to the business, the stockholders, the employees and the public."

In June 1913 the company informed me that the appointment of a Director by the employees had been a success. After only five years and nine months' operation, the average holding of a profit-sharing employee was about £70, while an employee who had been with the company the full time had received dividends on wages equal to 51 % of one year's earnings. There were no restrictions against joining the Trade Union. Wages and hours were approximately the same as prevailed elsewhere in the City of Boston for similar labour.

It has been mentioned above that the offering of stock to the employees of "Corporations" (*anglice* Limited Liability Companies) is a very noticeable fact in the United States, and that these offers are made on attractive terms, which amount in some cases to a form of profit-sharing. "If," says the British Government's recent Report on Profit-sharing, "the company issues shares to its workmen gratuitously or at a price below their market value, or otherwise upon specially favourable terms, thus making (to



the extent of these concessions) a gift to those among its employees to whom these shares are issued, then this is a kind of profit-sharing; for, in a case like this, the dividends received by the shareholding employees are, in whole or in part, received in respect of this gift, and as a reward of their labour supplemental to their wages." Here again we meet the difficulty of an absolute definition, and of drawing a hard-and-fast line between things which merge into one another by imperceptible gradations. If stock is *given* on a regular plan to employees, you clearly have profit-sharing; if it is sold on specially favourable terms, you have it in a less degree, which may reach the vanishing point.

THE UNITED STATES STEEL CORPORATION, almost if not actually the biggest industrial enterprise in the world, has had since 1903 a system of encouraging its employees to purchase and hold its stock, which according to the above dictum amounts to a form of profit-sharing. The Corporation is prepared to advance the money for the purchase at 5 % interest, and to accept repayment by instalments over three years, giving, moreover, substantial bonuses to those employees

who continue to hold the stock they have purchased, who remain in the service, and serve the Corporation, or one of its subsidiary companies, faithfully. The principle, therefore, is similar to that of the Procter & Gamble Company, but the premiums offered to those who purchase and hold are not so great.

In 1903, when this plan was started, the Corporation and its subsidiary companies had about 168,000 employees. The Corporation undertook to set aside from the earnings of 1902 the sum of \$2,000,000, and as much more as necessary, for the purchase of at least 25,000 shares of the nominal value of \$100 each in the Corporation's 7 % Preferred Stock. These were offered to the employees at the price of \$82.50 per share. Every man could subscribe for as much as he chose, not exceeding a certain percentage of his annual salary or wages. The percentage was not the same for all employees, but depended upon which of six classes he belonged to. The lowest class consisted of those earning not more than \$800, who might apply for up to 20 % of their earnings; the next of those earning from \$800 to \$2500, who might apply for 15 %; and so on up to Class A, whose salaries were \$20,000 or over, and who might

apply for up to 5 %. If more than 25,000 shares were applied for, the lower classes were to receive preference in allotment, "each class to receive rateably in the amount left for that class," but every applicant to be allotted at least one full share, even though this might make it necessary for the Finance Committee to purchase more than 25,000 shares.

Payments were to be made by monthly instalments, to be deducted from salary or wages in such amounts as the subscriber might desire, but not to exceed 25 % of any one month's salary or wages. A man must pay for his stock within three years. Dividends on the stock were to go to the subscriber from the date on which he commenced to make payments, and interest at 5 % was to be charged "on deferred payments"—meaning, I presume, the balance owing from time to time. As soon as the stock was fully paid the certificate was to be issued to the subscriber and he might sell it at any time he chose. If, however, he kept it and remained continuously in the employ of the Corporation, or one of its subsidiary companies, and showed "a proper interest in its welfare and progress," as testified by a letter from the proper official, he was to receive an extra

dividend of \$5 per share in each of the five years from the date of purchase. It was further stated that at the end of the five years the Corporation intended that he should receive a still further dividend. This could not be ascertained beforehand, but would be derived from a special fund, into which the Corporation would pay the \$5 payments, which would have been paid to those subscribers who commenced to pay for stock in January 1903, but afterwards discontinued within the five years. By a later clause this fund was made divisible among the men who had continued in the Corporation's employ, and whom it should "find deserving thereof," in proportion to the shares held by them under this plan. There were provisions for a man discontinuing his subscription and withdrawing his money before the stock was paid for; and other provisions for repayment of instalments, with certain additions, in case of a man dying or becoming disabled while faithfully serving the Corporation, or one of its subsidiary companies.

It was added that if this plan should be received favourably, and should meet with success, it was intended to make a similar offer of stock at the close of the next year,

at about what might then be the market price. The continuation of this policy, it was suggested, "would make it possible for a man to buy one or more shares of the stock each year under a contract with the Corporation, upon terms offering a safer and more profitable investment than he could possibly find for his savings anywhere else."

This plan has been continued, with slight modifications, year by year for the past eleven years, 1903 to 1913; and the Corporation write to me that they believe it "is mutually beneficial to the employees and to the organisation." The number of subscribers and the amounts of stock subscribed for in the years 1903 to 1913 inclusive were as follows:—

<i>Year.</i>	<i>Subscribers.</i>	<i>Shares Preferred.</i>	<i>Shares Common.</i>
1903	27,379	48,983	
1904	10,248	32,519	
1905	8,429	17,973	
1906	12,256	23,989	
1907	14,169	27,032	
1908	24,884	30,621	
1909	19,192	18,000	15,318
1910	17,444	24,672	
1911	26,363	19,229	29,119
1912	36,946	30,619	30,735
1913	36,119	34,551	25,793
<b>Totals</b>	<b>.</b>	<b>308,188</b>	<b>100,965</b>

It will be seen that the total nominal value of stock thus applied for by employees exceeds £8,000,000 sterling. Besides the offers of Preferred Stock in each year, Common Stock was also offered in the years 1909, 1911, 1912 and 1913. In the year 1913 the 7 % Preferred Stock was offered at \$109 per share (against \$82.50 in 1903), the market value having risen, and the Common Stock (of \$100 per share nominal value) at \$66. No subscription was allowed for a combination of both Common and Preferred Stock. Tables were issued showing in detail how many shares each employee might apply for according to his salary. Thus those with salaries not exceeding \$1100 might apply for one share of Preferred Stock, while those with salaries between \$19,956.26 and \$33,790 might apply for fifteen such shares. Of Common Stock those with salaries of \$495 or less might apply for one share, and those with salaries of \$19,387.51 up to \$32,340 for twenty-four shares. Other slight modifications in the terms of offer have been introduced since the year 1903. For instance, in the 1912 and 1913 offers it is specified that the dividends, on stock applied for but not fully paid, will be credited to the applicant's account, not

paid to him in cash. Also that subscriptions will be cancelled (a) at the request of the subscriber; (b) by leaving the service, or failing to resume employment when requested; and (c) whenever payments on account of subscription shall have been discontinued without the consent of the Corporation for a period of three months. Thereupon all interest in the stock to which the subscription relates shall be terminated, and the payments made on account shall be returned with interest at 5 % per annum. No credit will, however, be given, in these cases, to the subscriber for dividends on the stock, or for the special allowances offered to those who keep the stock for five years; on the other hand, no interest will be charged on deferred payments. The special payments to those who keep the stock for five years, and continue to serve the Corporation or one of its subsidiary companies, and to show "a proper interest in its welfare and progress," are to be \$5 a year per share of Preferred Stock, as before, and \$3.50 per share of Common Stock. Moreover, these payments are to be credited in their subscription accounts, to subscribers who have not yet fully paid for their stock, as well as paid in cash to those whose stock

is paid for. There are also provisions in favour of employees whose employment has been suspended by reason of the temporary closing of the plants, and who shall continue ready and willing when required to resume their service.

This plan of the Steel Corporation, affecting so many thousands of employees, and so many millions of capital held by them, is evidently one of very great possibilities. Already in 1908 there were 15,000 employees who owned fully paid shares, and 10,000 others who had subscribed for shares. It will be noticed from the figures given above that the number of subscribers each year in recent years has greatly increased as well as the number of shares taken by them. In June 1913 I am informed that about 45,416 employees hold or are paying for shares which they have taken up for the years 1909 to 1913. After five years all benefits accruing under the plan have been paid, and no attempt is made to keep any further record whether the employee keeps or sells his stocks. The par value of the stock held by these 45,416 was, Common \$7,494,200, and Preferred \$9,035,800; the market value was \$14,074,468. The nominal value of the



issued share capital of the Corporation was \$868,588,600, excluding the stock of its subsidiary companies; the total number of employees, of the Corporation and the subsidiary companies together, at Dec. 31, 1912, was 221,025; and the total nominal value of stock applied for by employees under the above offers from 1903-13 was \$41,015,300.

Some good friends of profit-sharing have expressed a doubt whether it is wise to encourage workmen, with their small resources, to invest in anything so risky as the steel trade. It may be replied that in the case of the Steel Corporation the investment has proved a very profitable one to the workmen who have made it; but this does not meet the objection, considered generally. In the United States, where wages are comparatively high, and openings for enterprising workmen comparatively good, the risk may not be more than is justifiable; but in older countries with lower wages and fewer opportunities of recovering a loss, there are certainly many businesses in which one would hardly advise the small man to put any part of his savings : I mean in the ordinary stock or shares. This does not so much apply where there is full, or express, profit-sharing; for there, come

the worst, the workman only loses what came to him in the form of a bonus, which but for the profit-sharing he would never have had. The case is very different where he invests money saved out of his wages, and in such cases it is certainly not right that he should be induced to take a serious risk : there can be no investment in industrial concerns without some risk, but it should be minimised in the case of the man of very small means.

Where the workman's capital is invested as a loan to the company and not as shares his risk is eliminated, unless we are to suppose that the company not only loses its share capital, but also fails to pay its creditors in full. In such cases, however, though the rate of interest may vary with the profits of the business, the workman by the very loss of risk loses great part of his "responsibility" for the affairs of the business : moreover, he is not a shareholder, and therefore has no vote. Where Preference shares are held by the workers a middle course is taken between Ordinary shares and deposits. The worker's risk is real, but he is not likely to lose his capital altogether. On the other hand, his dividend, with preference shares of the usual kind, is not very directly dependent on the greater

or less profit of the business; and lastly Preference shares do not usually carry votes. Perhaps in businesses of a risky nature the best solution is to create for the workers a class of shares bearing a small preferential fixed dividend, and a second variable dividend going up and down with the dividend upon the Ordinary stock. The fixed dividend might, for instance, be 4 %, and the variable dividend half the amount by which the dividend on the Ordinary shares exceeds 4 %. Thus if the dividend on the Ordinary shares were 10 % in any year, that on the workers' Preference shares would be 7 %. This would combine the advantages of comparative safety for the worker's capital and income, with a direct interest in improving results. Also it would not be unreasonable that a certain measure of voting power should attach to such shares.

The question arises whether we are to speak of stock-holding by employees, under such plans as these, as co-partnership. In the case of the Steel Corporation the advantages offered to employees seem so considerable as to constitute profit-sharing. Therefore there is co-partnership. In other cases the arrangements, though no doubt good and useful, are

so little more than the general public enjoy by buying in the open market, that it is not common sense to speak of them as profit-sharing. For instance, since 1896 the Illinois Central Railroad Company have had a system of buying shares for their employees either for cash or by instalments stopped off wages. They thus save the employee some trouble and expense, and they pay him 4 % on his instalments until the share is fully paid up. By June 1898 more than 700 employees had subscribed for shares of \$204,200 nominal value. In 1911 it was said that the result of the arrangement "had been very gratifying to date," though a large number of the employees did not yet understand it. The plan is still in operation, and no doubt tends to promote thrift and unite the interests of employers and employed, but it does not amount to profit-sharing and is not therefore co-partnership. According to the *Wall Street Journal* of Oct. 4, 1912, the rates of profit obtainable on United States railway stock (about 5 % on the purchase price) were not sufficiently high to be attractive to workmen.

That journal gave a summary of the position as to employees holding stock not only in

the railways, but generally in the United States, in the following words :—

“ PROFIT-SHARING PLAN FOR EMPLOYEES  
GAINING FAVOUR

“ *Offerings of stock to employees on attractive terms now quite general among large industrial companies.*

“ The policy of encouraging the employees of a corporation to take a financial interest in the business is gaining in favour. Some of the most prominent industrials have adopted profit-sharing plans involving a subscription to the stock. The stock is, as a rule, offered to employees at attractive prices, with special annual payments if the stock is held.

“ Although it is not generally known, several railroads in the past have tried this profit-sharing scheme, but it invariably fell through because of poor response from employees. The yield on high-class railroad securities does not look attractive to the average workman. The yield on industrials being very much higher, employees have responded very generally to subscription rights.

“ The United States Steel Corporation

started its plan of profit-sharing in 1903, by offering Preferred Stock to employees at a price somewhat under current quotations, the subscribers who retained their stock to be given a special compensation, or bonus. In 1909, and subsequently, the Common Stock was also offered. This year [1912] no less than 36,946 employees subscribed for a total of 30,619 [Preferred, and 30,735 Common] shares. The Republic Iron & Steel Company recently sold to employees a block of Common Stock at \$25 a share, on a similar plan to that of the United States Steel Corporation.

“The United States Rubber Company started a plan in 1904 of interesting employees in the success of the company through a stock option, which within its limits worked successfully. This year, however, the company developed a more comprehensive plan. Common shares were acquired in the market at \$45 per share, and offered to employees at the same figure after the stock had had a considerable advance from that price. The company also promised to give a cash payment of \$3 per share each year for five years provided the subscribers retain their stock and have given satisfactory service to the company.

“ In 1911 the National Biscuit Company undertook to assist employees to purchase Preferred Stock of the company on the instalment plan, and to date they have purchased 8718 shares in this way. . . .

“ The E. I. du Pont de Nemours Powder Company has not only adopted a pension plan for the employees of the company (\$121,530 was paid out during the year 1911), but also offers them the privilege of subscribing to the stock of the company, and gives Common Stock in the way of a bonus to those who have shown exceptional effort and attainment. Under this plan 8308 shares of Common Stock have been distributed as a bonus, while 6910 shares of Preferred and 1031 shares of Common have been subscribed for. No less than 45 % of the total number of stockholders, 2163, are now employees of the company.

“ Comparatively few large corporations adopt the policy of distributing large cash bonuses among their employees, unless safeguarded by various restrictions. Especially is this the case with corporations employing foreign labour. Experience has shown that a large number of foreign employees will return to their native countries immediately

upon receiving a substantial cash bonus. The Youngstown Sheet & Tube Company, which has distributed over \$500,000 among its employees since 1910, has had trouble in this way, and has fortified its future profit-sharing system with additional restrictions. Eastman Kodak recently distributed a cash bonus of \$500,000 to its employees on the basis of status and length of service. Sears-Roebuck has adopted a profit-sharing policy that will tend to keep its employees with the company. After five years' service each employee receives 5 % of the previous year's salary as a bonus, and this percentage is increased 1 % each additional year up to 10 %. American Sugar Refining recently started a pension system, including all classes of employees, and last year there was set aside from earnings \$300,000 as a nucleus for the fund. The highest pension to be paid is limited to \$5000 per year, and the smallest to \$20 per month. Brooklyn Union Gas is another company that has adopted a pension plan."

It is not possible to say how many of the above cases are strictly profit-sharing: apparently the first four or five would satisfy the definition: at any rate they are striking



instances of the tendency to make it easy for employees to hold stock. The last five illustrate practical difficulties found in strict profit-sharing, and are attempts to achieve the same ends by different, yet kindred, methods. How far they can do so is a matter of doubt. For one thing it is apparent that stock-purchasing schemes may be dropped at any time almost unnoticed, and the business gradually revert to a purely capitalistic form. While it is also true that full or "express" profit-sharing may be dropped, it is not, I think, so likely to happen, if only because it would cause a greater wrench.

On these stock-purchasing plans, and on profit-sharing generally in the United States, Mr. N. O. Nelson, than whom no one has greater authority on the subject, writes to me: "Notwithstanding the cessation of most of Mr. Gilman's cases, and the informality of most of the present cases, there is, nevertheless, a very large number of banks, manufacturing companies, and even stores, which regularly award a dividend on wages, rarely, if ever, however, paying it in stock. A good many have offered stock to the employees on easy terms, but you know well that this does not reach the right spot, nor inculcate the

right ideas." I am not sure that I would speak quite so strongly as that. The great examples of Leclaire and Godin and Mr. Nelson himself in sharing their profits and selling their businesses to their employees, and thus creating Republics of Industry, are of a value difficult to exaggerate, and must tend pre-eminently to "inculcate the right ideas"; but where you cannot have such great examples, where you cannot have even the express profit-sharing of the English gas-works—emphasising, as it does, the united interest of all the workers, linking the interests of workers and shareholders together, and leading to full co-partnership—there I am inclined to welcome any honest attempt to make the workers, or a large proportion of them, sharers in the capital with which they work. For one thing, they thus accumulate capital, without which it is difficult to see how their position can ever be satisfactory; for another, it does show an interest on the part of employers in the welfare of the employees, and a desire for better relations; and it tends to establish a large measure of common interest, and may therefore well be a step to some still better system.

## CHAPTER IX

### CO-PARTNERSHIP AND TRADE UNIONISM

AMONG all the great forces organised by the working classes for the elevation of their position, none is greater than Trade Unionism. It is a great wall to keep off the crushing force of competition, and prevent it breaking down wages to a point below which it is impossible for the labourer to maintain his efficiency and to live a civilised life. Without a standard wage there is no bottom to competition. Wages may be cut down again and again, in the hope of reducing cost of production and underselling rivals. The old political economy of course denied that Trade Unionism was necessary as a protection to workers; for it held that, if wages were brought down, the profits of capital must be correspondingly increased; and if these were increased beyond the point necessary to give an average rate of profit in any industry, the efforts of employers to increase their businesses by employ-

ing more labour would send wages up again. That old argument breaks down, because if the wages of labour are reduced below the point which will maintain the worker in efficiency, there is no added profit to the employer, except for a very short period. You have instead loss of efficiency, the degradation of labour, the hopeless fact that what labour loses in such circumstances no man gains. Trade Unionism has done much in winning positive improvements in wages and conditions, but its great service, indispensable in a competitive world, is that, by combining men in a refusal to work for less than an efficiency wage it has prevented this degradation.

It follows that no other movement for the benefit of labour can justify itself, if it involves any serious injury to Trade Unionism. We have, therefore, to ask, first, how co-partnership would affect Trade Unionism, if the former became universally prevalent; and secondly, how it does affect it now, when co-partnership is only sporadic, when it is beginning to be applied in this and that industry here and there. It was a well known theory of certain political economists that whereas, at present, the industrial cleavage tends to be horizontal, it ought to be vertical. At present, they said,

the whole of the classes which live by labour tend to combine together in a conflict with the whole of the classes which, as employers and capitalists, are socially and economically above them; this is a horizontal cleavage, but the true industrial cleavage, they argued, ought to be vertical: the employers, capitalists and workers, in a given business, should combine together, to compete against similar combinations of employers, capitalists and workers in other similar businesses. That is assuredly not my view, nor the view of those who have been most active in the propaganda of co-partnership for many years past; but occasionally one does hear it put forward by an employer who has adopted the co-partnership system. Such a man naturally thinks that if co-partnership were universal, Trade Unionism would no longer be required; that workmen would get by co-partnership far more than the Trade Unions can gain for them; and that if Trade Unions should survive in the day of universal co-partnership, they would be transformed into Friendly Societies, and lose all their purely industrial and bargaining character.

It seems to me quite clear that no such thing is to be anticipated. In every business in

which wealth is produced, there must be the sharing of that wealth between labour, management and capital; and this sharing can only be brought about by bargaining. In the co-partnership system, since labour gets first its wages and secondly a share of profit, that bargaining might turn around either the magnitude of the share of profit, or the amount of the wages, or both. I think, however, it is easy to see that it must turn chiefly around the amount of the wages. Any bargaining about the share of profit must be confined to the employers and employed in one particular firm; for the profitableness of different firms, even in the same business, varies so much, and the other circumstances of the different firms vary so much, that any division of profits must be specially fixed to suit the circumstances of each firm. If, therefore, there be any bargaining as to profit-sharing, it must be chiefly between the workers of a particular firm and their own employers; the Trade Union could hardly take up the question, and the workers must necessarily be at a disadvantage. It is only when all the workers in a trade, or even in a group of trades, are combined by Trade Unionism to bargain collectively, that they are strong enough to

hold their own against the powers of capital and management. Any effective bargaining on the part of labour must, therefore, even under a widespread co-partnership system, concern the rate of wages primarily. Moreover, this rate must be a standard rate for the whole trade or district. First, because on no other basis would it be possible to keep the combined force of the Trade Union together; and secondly, because if there were not a standard district rate, it would be impossible to say whether there was real profit-sharing in any firm, or whether the workmen were simply getting at the end of the year something which ought to have come to them weekly as wages.

I think I have answered the first part of my inquiry, and shown that, even under universal co-partnership, Trade Unionism would still be necessary, in order to maintain standard district rates of wages, without which labour, whether enjoying co-partnership or not, must be at a hopeless disadvantage, in the inevitable division of wealth produced, among the factors necessary to produce it. And now I have to ask how Trade Unionism will be affected by the partial and gradual introduction of co-partnership. There is no denying that some friends of labour fear that co-partnership

will sectionalise the men and draw them away from Trade Unionism. They, therefore, oppose it, knowing that workmen can do nothing except by acting collectively. It is equally undeniable that some employers have hoped by profit-sharing and co-partnership to detach their men from the Trade Unions, not necessarily with the idea of depressing the men, but often in an honest belief that it would be better for all parties. I have made these large admissions, because I could not honestly do otherwise, and also because, in spite of these admissions, I believe I can repulse the attack, and show that Trade Unionism and co-partnership are in fact co-operating forces. Such doubts are best, I think, met by another similar doubt which goes even deeper. Can any candid person deny that whatever makes working-men more comfortable may, and in fact does, weaken the willingness of some of them to make sacrifices for their whole class, and in particular for Trade Unionism? If, for instance, there is regular employment and the prospect of a pension in State or Municipal service, or if there is a good and generous employer, some men think it no longer necessary to subscribe to the Trade Union. We



cannot, on that account, say that there should be no permanent employment by the State and Municipality, no pensions, no good and generous employers, and that they are all enemies of Trade Unionism. Again, if men have houses of their own, or money saved, it may tend to make them more timid about entering into a contest, especially for the interests of others; for certainly the most reckless fighter is the man who has nothing to lose. We cannot on that account wish to see all the workers kept poor, that they may be the readier to fight against the causes of poverty. On the other side of the argument, the man who owns a house, or has something put by, is a much more efficient fighter when he is convinced that fighting is necessary; for his staying power is greater. Nor in the long run is he a more selfish animal: to think it would surely be to despair of any real progress.

But apart from supporting the interests of others, it is suggested that if workmen had substantial sums invested in a co-partnership business, they would be very unwilling to see their Trade Union entering into a conflict with that business; and that they themselves might be prepared to put up with injustice,

to suffer reductions, or forego advances, rather than risk their capital. No doubt the possession by the workers of capital in the business would introduce a certain element of consideration and caution. Nor, surely, is it undesirable—only it must not go so far as to break up Trade Unionism. I do not think there is much danger that it would. It rarely or never happens that an industrial dispute goes so far that the capital in the business involved is lost. The co-partners, therefore, need have no great fear of losing their capital; while as to losing dividends for a time, the wages question will always out-balance that in importance. Further, just as the man with any other savings has greater staying power, so has the co-partner; and he, moreover, adds a new force to the side of labour, namely the power of his vote and influence as a shareholder. I am not now considering the immense gain resulting from bringing together the various human beings engaged in industry, and softening their relations. I am assuming for the sake of this argument, that that softening of relations has failed to settle some disputed point, and that the fighting power of Trade Unionism is needed to step in. Even in this extreme case I think that, taking the

widest view, we may say that co-partnership and whatever else is good for the men as individuals, will in the long run, help all that is sound and useful in Trade Unionism.

In the Working Men's Co-partnership Productive Societies beyond all doubt the members do not take the view that there is any conflict between co-partnership and Trade Unionism : on the contrary the great majority are strong Trade Unionists. But leaving these societies, with their pronounced working-class sentiment, on one side, it is easy to show that if any body of men, employed in a capitalistic business which had adopted co-partnership, were unwise enough to think that Trade Unionism was no longer necessary to them, their error would correct itself inevitably, and probably by a swift and rude awakening. In profit-sharing concerns, as in others, it sometimes happens that for certain classes of workers no standard rate exists. It is not possible to say whether such workers are really receiving a share of profit or not, and it is inevitable that when they are being engaged, both they and the employer must have in mind, that if the wage is only so much, the profit comes on an average to so much more, and that the two together make one remunera-

tion. It is clearly quite different where the basis is a standard wage, and where the employer gives something over and above that, either as a recognition of his duty or as an inducement to better services. If in any co-partnership concern the men fell away from Trade Unionism, there would clearly be a great temptation when times were bad, for the management to nibble at wages, in order to make both ends meet; and in the absence of Trade Unionism the workmen would be too weak to resist. If wages were rising in other firms, one which had, or thought it had, some special disadvantage of its own, would be under a strong temptation to say to its employees: "We cannot afford this rise of wages, you must look to your share of profit." Therefore, men who thought they could do without Trade Unionism would very soon find that it is the necessary protection of the standard wage, and that without a standard wage profit-sharing can hardly be anything but a delusion. They would quickly recognise that, though they need not sacrifice profit-sharing, they must once more associate themselves with the whole body of their trade as to standard wages; and this applies equally whether co-partnership businesses are the

exception, or if we assume that they had become the general rule.

What happened in the celebrated profit-sharing and co-partnership experiment of Messrs. Briggs at their Whitwood collieries throws a flood of light upon this question. As we have seen, the colliers at first thought they need no longer remain in their Union, but when the great rise of prices came, they rejoined the Union, in order that they might help to put up the rate of wages. Later, when the great fall of prices came and wages in the district had to come down, the directors thought their workmen, in consideration of the profit-sharing, ought to stand in with them, and stand apart from their fellow-workers in the Trade Union: in fact, ought to accept the necessary reductions. No doubt reductions were necessary; nevertheless these profit-sharing and co-partnership colliers decided to throw in their lot with the Trade Union, and went on strike. Surely this shows how strong the Trade Union sentiment is, and how very unlikely it is that the workers would sacrifice their Trade Unionism from a mistaken idea that co-partnership rendered it unnecessary. In the Briggs case no doubt this strike brought

profit-sharing to an end, but there was no reason why it should be so. As I have said, if employers expect to detach their workmen from the general interest of their class they are bound to fail, but if they frankly allow them to join their fellows, then indeed they may expect to find that co-partnership softens the whole relation and removes endless causes of petty friction.

The Labour Co-partnership Association of London, after the great railway strike of the English railways of September 1911, issued a pronouncement from which I take the following words, which sum up my argument: "Co-partnership assumes a standard wage before there can be any talk of profit to divide. A standard wage assumes organisation to maintain it and to raise it. It assumes reasonable forms of Trade Unionism, collective bargaining, the meeting of Capital and Labour."

If I am asked what actually is the attitude of Trade Union leaders towards co-partnership I am bound to admit that a few are definitely against it, for the reasons indicated above. I would distinguish, however, between those who are Trade Unionists first and foremost, and those who are first of all exponents of the theory of State Socialism, but happen to be

Trade Unionists also. Possibly most Socialists—if we mean State Socialists, or Collectivists—though certainly not all even among these, are against co-partnership, thinking, first, that it conflicts with the ideal of State employment; and secondly, that if industry develops a large co-partnership element, it will be harder to nationalise it, than if it remains in the hands of a limited number of capitalists. Now, whether nationalisation be the ideal or not, it is to be remembered that capitalist industry is not in the hands of a few, but of an immense and ever-growing body of investors, who at present have no interest in that particular business except as investors. If the whole body of workers in an industry became shareholders they would have other interests which might incline them to public ownership in suitable cases.

As a whole, I should say, Trade Unionists are not committed either one way or the other. They are rather inclined to take the view of an eminent leader among them, with whom I discussed the matter some time ago, who began by admitting the benefits of co-partnership, but added “some of us are opposed to the scheme on the ground that it sectionalises the men.” I said that I thought with a properly

drawn scheme, this might be avoided, and he at once replied, "If so, that removes my objection." My own knowledge of the Trade Union attitude is confined to England; and in England, it must not be forgotten that many of the greatest leaders of Trade Unionism have been, and are, among the keenest advocates of co-partnership. The late Mr. Inskip, of the Boot and Shoe Trade Union, gave evidence before the Royal Commission on Labour in 1891-2 as to the great service to Trade Unionism of the working men's co-partnership boot manufacturing societies—services which were even more marked in the strike that followed a few years later. Mr. David Shackleton, formerly leader of the Operative Cotton Weavers, was a warm supporter of co-partnership before his position as a Government Official prevented his taking part in such matters, while the names of Thomas Burt and Charles Fenwick are almost as well known as advocates of co-partnership as they are in Trade Unionism.



## CHAPTER X

### CO-PARTNERSHIP AND VOLUNTARY CO-OPERATION

PROFESSOR GIDE has said that companies in which the workers participate are only a form or modification (*modalité*) of co-operation. Certainly we may say of co-partnership that it is, in a very full sense, one of the forms of voluntary co-operation. We may define this last as a voluntary association in which men combine for the double purpose of working together to produce wealth, and of sharing that wealth among them not by a competitive struggle, but on principles of reason and equity agreed beforehand. Clearly the wages system does not come within this definition; it does, indeed, involve an association of those who do manual work with those who direct industry by brain work, and that association is in outward appearance voluntary; but in reality it is very often dictated by pure necessity; and always the

division of the wealth produced by wage service is not regulated on principles of reason and equity, but enforced by the strongest party as a result of a competitive struggle. No doubt men will always find themselves, to some extent, constrained by circumstances and by the wills of other and stronger men; but every modification of the wages system, which helps to attract men's wills, and bring them into the organisation of industry as substantially voluntary agents, brings us nearer to the ideal of free co-operation; so does every modification which introduces into the sharing of wealth any element of equitable reasoning. In both respects co-partnership takes us a long way on that road, and in its full development it will take us all the way.

Not only is co-partnership logically a part of co-operation : historically also we find that in Great Britain it sprang very largely from the co-operative movement; and, so far as the purely working-class co-partnership societies are concerned, they always have been a part of the co-operative movement. In France also this is to some extent true; the working men's productive societies, which practise profit-sharing, are co-operative asso-

ciations of the school Fourier; while Godin was under the full influence of Fourier, and his Familistère was but a modification of the Phalanstery which Fourier had conceived.

The question, therefore, naturally arises, what is the attitude of the rest of the co-operative movement towards co-partnership, and what are the prospects of its development within that movement? This is no small question, seeing that in the United Kingdom alone the co-operative movement includes about 3,000,000 people, chiefly heads of households; that its retail stores sell goods to the value of nearly £80,000,000 per annum, and that it manufactures goods to the value of more than £26,000,000. And this is but a small part of the whole co-operative movement of the world, and a still smaller part of what co-operation is rapidly growing to.

The rules of the Co-operative Union of Great Britain lay down as one of its principles, "conciliating the conflicting interests of the capitalist, the worker, and the purchaser, through the equitable division among them of the fund commonly known as profit." This principle, taken in its plain meaning, clearly involves profit-sharing with labour; and when fully developed it leads necessarily to co-

partnership. Yet the great majority of British co-operative societies ignore this fundamental principle of their Union, and treat their profit as belonging to the consumers only. They divide it, therefore, as a dividend of so much in the pound on purchases, usually giving half dividend only to non-members; and as they give the consumers all the profit, so they give them all the control. A member of one of their societies may be working for his society but it is as a customer that he becomes a member, like any one of the general public. Moreover, there are considerable limitations in some societies on the right of employees, even when members, to vote in the general meetings of the society; and they are nearly always excluded, by rule or by custom, from membership of the committee. I have never seen any attempt to reconcile this disposal of profit with the fundamental principle I have quoted; though I have heard it stated, that a reconciliation could be produced if necessary. I have said that this is the policy of the great majority of co-operative societies; there is, however, a substantial minority, for about one-seventh of the stores share profits with their employees.

A great part of the manufacturing work of

the co-operative movement is done by the individual stores, but another great part is in the hands of the Federal Bodies, *i. e.* federations of stores; and the greatest of these is the English Co-operative Wholesale Society, with its capital of £5,700,000, and its trade of nearly £30,000,000 per annum. For a short time it practised profit-sharing, but the practice was abandoned, partly, I believe, to conform with the "Consumers' Theory," which I will explain, but chiefly in pursuance of the idea of equality. It was thought that if the workers employed by the Wholesale were getting a Trade Union rate of wages, plus a share of profits, they were thereby constituted a class privileged above the ordinary members, who, in their employment outside the co-operative movement, were lucky if they were getting a Trade Union rate of wages without any addition. At present, therefore, the Co-operative Wholesale Society not only confines its membership to the stores, to which it sells, but its workers, who may, or may not, be members of a store, are merely employed for standard wages like those of any other good employer. For the last few years there has indeed been a pension fund to which they and the Wholesale con-

tribute, but they are quite cut off from that direct share in profit and control which co-partnership gives. The Wholesale is now the greatest example of what is called the Consumers' Theory of co-operation. This is, that all profit is due to the consumer, that, in fact, the value of everything is caused by him, seeing that if there were no consumers desiring to purchase, even the rarest thing, and the thing produced with most labour and capital, would be valueless. If the consumer, says this theory, be charged 7*d.* for what costs the producer 6½*d.* to produce—including cost of materials, wages, and all necessary expenses—then he is over-charged ½*d.*, and he has a claim to have that ½*d.* returned to him. If the ½*d.* is retained by the producer it is a profit on the price for which he sells the article, and profit on price is the forbidden fruit in the eyes of this school. They claim that a society which pays out its so-called profits to its customers as a dividend on their purchases, does not really make any profit; it merely retains, temporarily, a balance, belonging to the consumer and ultimately returned to him.

Beyond the store and the federation of stores those who hold the Consumers' Theory in its fullest form have a further ideal. When

the consumers have done all they can to supply themselves, by voluntary association, the State and Municipality must proceed to organise the rest of industry, or most of it. Such is the theory held, more or less completely, at least in Great Britain and in Germany, by the majority of those co-operators—a comparatively small number—who trouble about the principles of their movement.

Though certainly in the minority to-day, the co-partnership ideal was originally predominant in the British Co-operative Movement; and most of the great names of the early days—Vansittart Neale, Ludlow, Tom Hughes, George Jacob Holyoake, Edward Owen Greening—belong to that school. But of late years so strong, among a certain party, has been the feeling that consumers' co-operation is the only true form, both for distribution and manufacturing, that the Wholesale has not hesitated to enter into competition with co-partnership societies or to buy them up, and make them part of its own system, abolishing the co-partnership element. Co-partnership is, however, still vigorous; it still has a large following within the co-operative movement.

In Germany, where the store movement

is so powerful, its attitude towards co-partnership is very much the same as it is in England, except, indeed, that the unanimity in favour of the consumers' basis appears to be much greater. In France, there is a school of thinkers which inclines to co-partnership; but few, if any, of the stores practise profit-sharing; nor have they any considerable business relations with the workmen's productive societies, or with the few co-partnership companies which exist. Indeed, throughout protectionist countries there is great jealousy between the store movement, based on the consumers, and other forms of co-operation which are in any way based upon the producers. Consumers' societies looking at the matter as purchasers are strongly inclined to Free Trade; and are often, therefore, in sharp political conflict with the producers' societies, especially with the agricultural societies, whose apparent interest lies in high prices.

I have instanced the English Co-operative Wholesale Society as the greatest example of federal co-operation on the consumers' theory. The Scottish Co-operative Wholesale must be instanced as the greatest example of federal co-operation on the full co-partnership basis—



the three-fold basis of worker, consumer and provider of capital. It is to the Scottish stores what the English Wholesale is to the English stores, and 270 Scottish stores are shareholders in it. Its capital and trade exceed £3,000,000 and £8,000,000 respectively. The great bulk of its profit is used in paying a dividend upon purchases to the stores, but it has since 1870 practised profit-sharing with its employees also, and since 1892 it has given them the right to take up shares. The employees, are, in fact, the only individual shareholders in the Wholesale, the other members being all co-operative societies.

When the co-partnership rule was introduced it was provided that the worker must leave one half of the dividend on his wages as loan capital, not share capital, with the Society, so long as he was in its employment. In addition he has the right to subscribe for shares. At the end of 1912, out of 8164 employees only 564 were shareholders, and their total capital, share and loan, amounted to £82,596.

Another federation of Scottish stores, the United Baking Society of Glasgow, can show a much stronger development of co-partnership. It is not nearly so large a body, though

its production exceeds £600,000 per annum, but it is extremely prosperous, and about three-fourths of all its workers over sixteen years of age are shareholders; speaking more accurately, they are united in an Employees' Investment Society formed for the purpose of capitalising their bonuses; and this investment society is itself a member of the federation which employs them.

Apart from co-partnership in the productive work carried on by consumers' societies, we have already seen in Chapter III, that there are about eighty productive societies formed by artisans for carrying on their own trades on a co-partnership basis. There is also an increasing number of producers' societies of another kind, viz. agricultural co-operative societies formed by farmers, which recognise the co-partnership principle in favour of the labour they employ. Altogether there are, in Great Britain, over one hundred co-operative societies of these three kinds, practising co-partnership. As time goes on, there will probably be a considerable growth of both agricultural and artisans' societies. For instance, the societies of printers in England show a very steady growth, and there seems no reason why there should not some day be

a co-partnership printing society of working-class origin in every important town. Similarly we may expect a considerable increase in other trades, where the men are intelligent and fairly well paid, and where the capital, per man employed, is not excessive. In Paris there have been, for many years, highly successful co-operative societies of cab-drivers. Indeed, throughout France there has been for the last twenty years a very remarkable growth of working-men's productive societies (*associations ouvrières de production*) in a great variety of trades. In 1892 they seem to have numbered under 100; in 1912 it was 496. Their trade is about two and a half to three million pounds sterling per annum and their capital rather over £1,000,000. The most noticeable points which distinguish these French societies are: first, that there are no shareholders outside the particular trade, or even the particular Trade Union, from which they spring; secondly, the individual workman, who becomes a member, takes a much larger responsibility upon himself than his English brother. He signs for shares of a nominal value of anything up to £80, whereas the English workman probably signs for £5. The finan-

cial responsibility in the societies rests, therefore, entirely upon the few workmen who constitute them. Lastly, a very large part of the work of these societies is done for the State or the Municipalities. It is, in fact, a regular part of French policy to encourage workmen's productive societies and to give public work to them, rather than to maintain Works Departments, or give the work to capitalist contractors.

In the same way in Italy there is a great growth of workmen's productive societies, called *società di lavoro*, which differ from the French societies chiefly in not usually owning much capital, nor maintaining workshops or factories. They are organisations of workmen co-operating to undertake labour. They nominate their own foremen and managers, and provide a few tools; but the raw materials, and other things costing large sums, are provided by the other party to the contract. Some of these societies are merely transient, formed to undertake particular pieces of work. Others are permanent, taking contracts first here and then there. In many cases they are bodies of labourers or navvies undertaking to get shingle out of rivers, to maintain the banks of rivers, to make or ballast railways,

to reclaim marshy lands. It is very largely by means of such societies that the Campagna round Rome has been transformed from a pestilential waste into healthy farm-land. In other cases the societies consist of builders' men, or artisans of various kinds, sometimes of one trade, sometimes of several allied trades, who undertake contracts in their own line. The encouragement of these societies is just as much a part of the public policy in Italy, as in France.

There are, of course, defects: where, for instance, the membership is confined to artisans of a particular trade, it follows that the society must be permanently employing a few clerks and labourers and others, who, though they may enjoy profit-sharing, are permanently ineligible for membership. It is, however, only a very small number of the employees of such societies in France who are ineligible; and I do not know that the criticism applies to the Italian societies at all. Another danger is that, where a certain number of men have formed a society, and have more work for the moment than they can execute themselves, they employ others of the same trade, "helpers" as they are called. These are naturally not members at

first, and some societies in the past yielded to the temptation of keeping them permanently in the position of non-members; but the Federation of workmen's productive societies in Paris has long ago laid down a rule that all Societies applying for membership must share profits with their "helpers," and afford them reasonable opportunities for attaining to membership.

These examples encourage the expectation that a not inconsiderable part of the work of all highly developed industrial countries will, as time goes on, be undertaken by co-operative groups of workmen organising their own labour and finding, with or without the help of outside shareholders, the whole or part of the capital needed. Nor can I doubt that, as this working-class development comes, it will to a large extent be based on the co-partnership principle.

At present, however, the next great development of co-partnership must be expected from the employer class, and more particularly from the larger limited liability companies. The organisation of these is already so perfect in most respects that they attain a high standard of efficiency. Their great weakness is that they have not secured anything like harmony

with the labour they employ. This harmony co-partnership would give them. Many of the larger-minded employers are already looking in that direction; and we are led to ask how a general adoption of co-partnership in limited liability companies will affect the consumers' co-operative societies, the majority of which, as we have seen, employ labour for wages only? May it not bring about a state in which the workman working for such a co-operative society will be at a disadvantage; he will, indeed, be getting good conditions and Trade Union wages, but a similar workman, doing the same work for a limited company, will have these advantages and, in addition, a substantial sum coming to him every year as a dividend on his wages; and that sum will be accumulated in the capital of the business as a provision for his old age, and for his family? In this way it seems to me that the co-partnership businesses will outbid the non-co-partnership consumers' societies for the best workmen, as Mill foresaw that they would outbid ordinary employers. If so, it will be a serious position for the co-operative societies. They are already to a large extent outbidden by capitalist businesses in the rivalry for the

best managers. It is, indeed, surprising, and a great credit to human nature, how many able men remain in the co-operative movement, as managers and directors, for comparatively small emoluments, because of their enthusiasm for the ideal of co-operation. These, however, are only the few enthusiasts. Speaking broadly, the competitive world attracts the great majority of the men with first-rate managing ability. If, in addition, the competitive world is going to offer to the manual worker better attractions than most co-operative societies, the position will be a serious one. Happily, however, it is one which the consumers' movement can always meet, without any loss to its members, by extending full co-partnership conditions to the whole of the labour it employs.



## CHAPTER XI

### THE TRANSFORMATION OF CAPITALISM

IN considering every great movement the question finally arises: How does it stand in relation to the great central movement of the nation, to the State, and to the whole order of society? So with co-partnership, we must ask: How far does it need, and how far ought it to receive help from the State? How far does it harmonise, or conflict, with the functions which the State itself ought to undertake? How will it affect our social system? Co-partnership asks, of course, that the State should place no impediment, by legal provisions, in its way. In limited liability companies under English law (and I believe the like applies to other great industrial countries) it is quite easy to take power in the Memorandum and Articles of Association to practise profit-sharing and co-partnership with employees. In private employment profit-sharing has long been quite

easy; and since the Limited Partnerships Act of 1907 the way has been clear for co-partnership also: the employees may be formed into an Investment Society and that society admitted a limited partner in the business, the other partners retaining their unlimited liability and complete control of the business, which in all other respects remains unchanged.

But the law may go much further than merely offering no obstacle to the carrying out of co-partnership: it may directly attempt to foster it. In Chapter VI we have seen that the French Government is proposing legislation to encourage a form of co-partnership, and private members of the French Parliament have even proposed to make it compulsory in certain cases. In 1903 there was introduced into the legislature of Massachusetts a bill to establish compulsorily profit-sharing and co-partnership in "corporations," *i. e.* limited companies, by a division between the shareholders and employees of all profit above 5% on the market value of the capital. Next year a similar bill proposed to facilitate, not to compel co-partnership between all employers and employed. Again in 1908 a similar bill proposed to establish a threefold

co-partnership of capital, labour and customers in certain railroads and street railways.

Quite recently Mr. J. D. Hope, M.P., and other Members of Parliament have introduced into the British House of Commons a Bill whose chief proposals are three. First, it would enable companies to adopt profit-sharing and co-partnership though their Articles of Association or private Acts may not provide for it: this would avoid the difficulty and expense of altering the company's constitution. Secondly, it sets out a model scheme of co-partnership which companies may voluntarily adopt; and thirdly, it provides that such model scheme shall ordinarily, but subject to the discretion of Parliament in each case, be a condition for granting statutory powers to new companies. This model scheme provides for profit-sharing to begin when share capital has received 5 %, and for the investment of the bonus in trustee securities, or, with the consent of the co-partner, in any stock or shares of the company itself.

For many years past a distinguished English co-operator, Mr. Edward Owen Greening, has advocated that where railway companies or other similar bodies applied to Parliament for

statutory powers, some form of co-partnership should be made a condition. Others have suggested quite a number of ways in which Parliament might encourage co-partnership companies, by a preference in the giving out of public contracts, by lower stamp duties on incorporation, by exemption from income-tax on the portion of profit paid to labour, and so forth.

As Parliament insists upon standard wages being paid by Government contractors, on grounds of public interest, so there is no objection in principle to Parliament also encouraging co-partnership when once it has been decided that it is a desirable change; at any rate where a sufficient number of co-partnership firms exist in any line of business to ensure an effective competition. We have seen indeed that in France and Italy there is a well-established system of giving public contracts to associations of workmen. It is evident, however, that many difficulties and some dangers would arise in carrying out proposals of this sort. There would certainly be difficulties in defining exactly what was, and what was not, co-partnership; but the most serious thing would be that certain contractors, without having the co-

partnership spirit, might adopt its form in order to qualify for Government contracts. Such cases could hardly lead to good results, and the existence of the form without the spirit would probably, in the long run, bring discredit upon the principle. Therefore, without ruling out Government pressure, it is certainly a thing to be very carefully thought over; for my part, I hold that in this matter we must for some time look to voluntary arrangements.

So far we have assumed that a wide spread of the co-partnership system is desirable, but this is not universally admitted. The Collectivist objects that it distracts the attention of the workers from the true line of reform, sets up obstacles to collective ownership, and relies on individual effort, whereas the State alone, he holds, can solve the social question by establishing right relations of capital and labour. I have spoken of this objection as being taken by the Collectivist rather than by the Socialist, for some at least who call themselves Socialists do not join in it, but would rather regard co-partnership as worth experimenting with, perhaps likely to prove part of what they call Socialism. On the other hand, towards the opposite extreme

of politics there is an inclination to run co-partnership as a rival to Socialism—meaning by Socialism attacks upon private property.

It will be well perhaps to clear our minds as to the meaning of the terms we are using. The original use of the word Socialism did not in any way suggest the confiscation of property, but described a principle of conduct opposed to the principle of individualism. Robert Owen, the founder of English Socialism, in opposition to the popular philosophy of his day, taught that the greatest good of the greatest number would never be attained by each individual pursuing the apparent interests of himself and his family, but that each must consciously pursue the good of the whole body social. This was a principle applicable to individual conduct, whether in business or any other sphere of life, no less than to voluntary association and to the action of the State and the municipality. Thus Owenite Socialism, which was the original form of the doctrine in England, did not in any way imply confiscation: neither did the Christian Socialism of 1850. I think it is equally true that the earliest continental Socialism of Saint-Simon, Fourier and others

did not. In the 'sixties and 'seventies little was heard of English Socialism; and the Socialism which became such a power in the 'eighties and 'nineties, and the first years of this century, chiefly drew its inspiration from Karl Marx and Germany. Socialism came to mean merely an expropriation of the present owners of land and capital, and the organisation of industry by the new owners, namely, the State and municipality. This at any rate was the street-corner meaning of the word: it is a matter of dispute how far it was so understood by the Socialist leaders themselves. But in the last few years there has been a striking reversion of the word Socialism to something of its older meaning. It still includes, indeed, the doctrine that the State and the municipality should own not a little capital, and carry on certain industries; also that legislation should secure a national minimum of well-being, by insurance, minimum wage laws and such means; so that no worker should live below the poverty line. But after that is said, it is rather difficult to get a close definition of Socialism in 1918. Its chief emphasis is on the old idea of the well-being of the body social as the great object to be aimed at, and it does not necessarily

include the nationalisation or municipalisation of all capital, or all industry.

From the controversies of our time there emerge three main ideas as to the best way in which industry can be organised, and these three seem to be rivals : each claims to occupy the whole field, and each is exemplified in the modern State, but occupies therein a part of the field only. Industry may be organised, as it is for the most part in the modern world, on a basis of pure individualism, each individual seeking his own benefit and that of his family ; his economic relations to other individuals outside his family being regulated by competition. As a result, you have the control of industry in the hands of those who provide the capital, while the status of the manual and the brain-worker is that of wage-service. Secondly, you may have industry organised on a basis of voluntary association, in which the whole of the parties concerned agree to act together, and to divide among themselves the wealth produced ; to divide it not by competition, but in accordance with principles of reason and justice agreed to by them beforehand. Lastly, you may have State and municipal Socialism, which also are forms of association : in these also the produce



is divided on principles which the majority have decided to be just and reasonable, but the association is compulsory and not voluntary.

Each of these has its merits and each its disadvantages. Capitalism gives us wonderful achievements, but it is desperately wasteful of human life, and even of the wealth it produces so abundantly. The State has great resources and power, but its movement is slow and unenterprising. Voluntary association gives equity and a wider diffusion of well-being to all who take part: it avoids many of the evils of capitalism and many of the drawbacks of State action, but it loses something of the energy of the one and has not the power of the other.

Each of the three has its sphere where its advantages are at a maximum and its disadvantages at a minimum, and, consequently, we may expect to see all three continuing to work side by side in their proper spheres, for as long a time, as we can rationally attempt to forecast. I suppose that time is not more than a couple of generations, since the progress of invention and of education may easily have so changed the world by then as to require solutions which we cannot foresee.

I suggest, therefore, that where there are great monopolies, either natural, or created by the combination of businesses, there you have a presumption in favour of State and municipal ownership. In those forms of industry where individuality is everything; where there are new inventions to make, or to develop and put on the market, or merely to adopt in some rapidly transformed industry; where the eye of the master is everything; where reference to a committee, or appeals from one official to another would cause fatal delay; there is the natural sphere of individual enterprise pure and simple. Between these two extremes there is surely a great sphere for voluntary association to carry on manufacture, commerce and retail trade, in circumstances where there is no natural monopoly, and where the routine of work is not rapidly changing, but on the whole fairly well established and constant. While collectivism, voluntary association and individual enterprise thus seem to me, all three, permanent elements in our industrial system, they are surely all subject to the great principle that conduct, whether individual or associated, whether private or public, must in all things be directed with an eye to the greatest

good, not of the individual acting, but of the body social; and this, as I have said, is the great principle of Socialism in its original, and its permanent, sense.

When, therefore, the Collectivist objects that it is the State only that can solve the economic and social question, I am not moved. I am not in fact hoping by co-partnership to solve the social question; I mean, not all the social question, or rather all the social questions. Co-partnership is not a panacea: many other things are necessary. Within certain spheres I grant to the Collectivist that State and municipal ownership and control may be necessary; but that does not affect the argument for co-partnership outside those spheres. It is even possible that there is a place for co-partnership, or something very like it, in those industries which are carried on by public ownership. An instance of what I mean is found in a method of profit-sharing adopted in the Stafford Municipal Gas Department, in which it is provided :—

“ That when the total cost of manufacture and distribution of gas shall be less than tenpence per 1,000 cubic feet of gas sold, a bonus equal to one-fourth of the difference between

that sum and the actual cost shall be divided among the workmen and clerks who have been employed in the Gas Department for not less than three months during the year in which the bonus has been earned."

This shows that profit-sharing is as applicable to municipal as to joint-stock gasworks; and we must remember that one of the worst conflicts with labour occurred in municipal gasworks, and that other municipal employment is by no means free from conflicts. Nor is there anything to prevent the introduction of the other elements of co-partnership. The municipal workmen may be given a further interest in the economy of the business by allowing their bonus to accumulate at a rate of interest fluctuating as the bonus itself fluctuates; and they may be given direct representation upon the committee of management. Nor is there anything special about gasworks. In some similar way, but with suitable modifications, it would be possible to apply the principle to many departments of the public service. To pursue the question how far, and with what details, this could or should be done would be beyond my present task.

Here I must pause to avoid a very probable misunderstanding. I have spoken of a certain presumption that monopolies should be owned by the State or municipality; but I am not saying that all local monopolies, such, for instance, as gasworks, should be taken over by the municipalities. First of all gasworks which supply the public without being municipal are already for the most part strictly controlled in the public interest by the sliding scale, and by other stringent conditions imposed by Parliament. Now all control is, it seems to me, a part ownership; I cannot see what we mean by ownership of a thing except the right to control it. But secondly, against the presumption in favour of municipalising there is the stronger presumption which always exists against altering anything which works well: we must therefore ask in each case whether the gasworks or other local monopoly for which municipalisation is suggested, is or is not already serving the public well. Thirdly, the co-partnership experiment now being carried on by gasworks is far too valuable to be sacrificed, unless for imperative practical reasons; certainly not for mere abstract theory. But if in any case such imperative reasons were shown to exist it

would be quite possible to municipalise the gas undertaking on the basis above suggested without sacrificing the advantages of co-partnership. Public ownership and public employment do not of themselves bring about any unity of the interests of the worker employed with those of the employer.

If we are to reconcile public ownership on a great scale with energy and with individual liberty, must we not say that, in a public enterprise, some direct interest in the results, and some special representation of the workers actually employed are essential? There is, strictly speaking, no opposition between co-partnership and State and municipal socialism, unless indeed you are prepared to drive your theory of collectivism to an extravagant point, and maintain that the individual must be nothing but the wage-servant of the community, subject like a soldier to absolute orders. This indeed was once the doctrine of many, but I fancy it is less widely held to-day, when the Syndicalist agitation of the last few years has so violently asserted the right of the actual worker to own the things he works with, and to control the conditions of his own labour.

I have no intention here to criticise syndicalism, or the means, violent or otherwise, by which it proposes to establish its system; but I do want to point out that just as collectivism represents rebellion against the evils of individualism and competition, so syndicalism represents a rebellion against the idea of a centralised and absolute control over men's working lives. The representatives of the whole community—Parliament, Government and the bureaucracy through which alone they can act—are but masters, to the workers whom they control. As the socialist calls the present system, not wage-service but wage-slavery, so the syndicalist in his turn looks upon universal State employment as slavery, and cries out for the right of workers in a given trade to control their own working lives, while providing the services required by the community. Surely in spite of violence and extravagance there is some sense here, something which human nature needs. I should be sorry indeed to suggest any spiritual kinship of co-partnership and syndicalism, for one works in the spirit of harmony and peaceful progress, and the other in the spirit of violence and anarchic revolution; but each recognises a real need, and co-partnership

would give it such satisfaction as is possible. It is not, I think, fanciful to say that the old self-governing workshop ideal of the Christian Socialists was some approach to a peaceful syndicalism. But the co-partnership movement which grew out of the self-governing workshop, while recognising the rights of the actual worker, came to recognise, more and more clearly, that his is not the only interest which must be considered. There are, in fact, three elements requiring satisfaction in all production and in all service. Some one must find the labour and some one the tools, while the public or part of it is deeply interested as customer and consumer of the produce. Against those who claim all the control for the capitalist, and those who claim it all for the consumers, co-partnership always claimed a certain interest and a certain voice for the actual workers. It was met with ridicule, it was told that it was claiming the mine for the miners in disregard of the greater interest of those who need the coal for use; and it was asked whether in the same way it would claim the sewers for the sewer-men. And now come along the syndicalists with their extravagant demand, which may perhaps wake men up, and make the more reasonable and moderate



demand of co-partnership seem acceptable by comparison.

But co-partnership also recognises the position of the man who provides the tools, that is the capital. A state of society is certainly conceivable where groups of workers, or the community as a whole, would set aside a part of the annual produce of labour to become new capital; but that is not what happens now. The providing of capital is always left to individuals, whether it be in the competitive organisation of industry or in the co-operative, or in the case of the State and municipality. In every one of these some individual consumes less in a given period than he had a right to; and the surplus becomes capital, which he uses himself, or lends to some other individual, in the one case; or invests in the co-operative society, in the second case; or lends to the public, in the third case. But in every one of these cases it is the individual who makes that wealth into capital, and it remains his private property. Now individuals will not do this without two things: first, if they lend their capital they must receive, not only the right of repayment, but adequate pay meanwhile for the loan; and secondly, they must have such a voice in the

control as will at any rate enable them to safeguard their property. Co-partnership recognises those facts. Indeed it would be folly not to do so. We may think some other system of providing capital would be better and will come about some day, or we may not; but in developing a better system of industry, we have to begin from where we are; we cannot begin from where we are not, simply because we are not there, and cannot get there at a bound. We are where capital is in the hands of individuals, and as we co-partnership men have no idea of trying to dispossess them by force, we must recognise the position; the more so as it is they only, or almost only, who have the power to institute co-partnerships. Moreover, the men who have the capital have, speaking broadly, other great requisites also: they have the business experience, and the technical skill: some of them have the great organising power which was born in them, which is as rare as is the genius of the painter or the poet: it has put them in the position where they are, and made them great captains of industry. The world needs these great captains, and their great powers, under whatever system, if work is to go on efficiently.

Co-partnership seeks to recognise the rights of capital (meaning the owner of capital) and of labour, whether hand labour or brain labour, up to the very highest managing ability; and to make them work together, and to bring out the best in all of them. But this is not all; the ideal of State control also embodies a great truth, the ultimate rights of the consumers and of the public; rights as fundamental as those of labour and of capital, or probably, both in morals and economics, the most fundamental of all. In perfect co-partnership, therefore, the consumer element, the public, must also be represented. In the workmen's co-partnership societies it is recognised, for a share of profit is, as a rule, given to the organised consumers, that is to the co-operative stores, which are the customers; and these consumers' societies are welcomed as members, and sharers in the control, side by side with the men who find the labour, and those who find the capital. In the co-partnership gasworks, again, we come very near to complete co-partnership, with its three elements, for by the sliding scale the interests of the consumers are recognised and protected: we should come nearer still if the community of consumers

became part owner of the capital with the other owners, and received direct representation on the directorate. In the case of the N. O. Nelson Manufacturing Company also we have an example of threefold co-partnership. Beginning as the private business of Mr. Nelson the co-partnership of the workers employed was recognised in 1886, and in 1905 the co-partnership of the consumers, as has been fully described in Chapter VII. Of course to-day, when the co-partnership of labour is an idea only beginning to be realised, the co-partnership of the consumer must seem to most people an idea remote and extravagant. Yet the customer is really master, and a hard master too, of all business enterprises. How far at some future day, and in what form the customers may come to take their place as co-partners with capital and with labour, it is very difficult to say; but there are not wanting indications that this may be done on business principles. Many a firm when converting itself into a limited liability company seeks to get its customers to become shareholders: this is a crude, but yet a very real, groping after co-partnership; and in the co-partnership productive societies the more scientific co-partnership of the

consumers is not desired only as a matter of principle, but also as the soundest basis of business.

Thus co-partnership in its ultimate development, besides seeking to promote a harmony of interests between the workers, whether with hand or brain, and those who find the capital, recognises also the interests of the consumers, the community, the State. From socialism and from syndicalism, from voluntary association and from capitalism, it takes the best elements and strives to conserve and to harmonise them in the common interest of all.

We must not, however, lose ourselves in speculations as to the distant future: the immediate question of the day, or rather of the next two generations, is: What can co-partnership do for the workers in that wide field of industry which is in the hands of great manufacturing companies? I think it can give them a means of rapid advancement which the raising of wages can never give; and that it can finally abolish the fatal distinction which has run through so many ages between those who, on the one hand, have done the muscular work necessary for the production of wealth, and the smaller class who have exercised the

control, have owned wholly or almost wholly the means of production, and enjoyed the best part of the produce. In its extremest form this division of men is found in the institution of slavery. Here the line is drawn very sharply, inasmuch as the slaves own nothing—not even their own persons—except so far as they are allowed to by the favour of their owners. In a less extreme form the same division is found where serfdom prevails; but here the line is a little less sharp, for the serf has by custom, gradually hardening into law, certain rights in the land, a certain ownership of the means of production, and certain rights in the produce; but all these rights of his are very limited compared with the rights of his lord. In our own country both slavery and serfdom have gone, but under the institution of wage-service we still have the broad distinction remaining, to some considerable extent, though the line dividing the two classes has now become a good deal blurred. A considerable number of people are found who belong to the working class in the main, and yet have enough property to give them a little foothold in the other class too; while in the owning class there are quite a large number of individuals who also do a

great deal of the work, even muscular work, necessary to production. Are we to suppose that this progress from slave to serf, from serf to wage-servant, is complete?—or are we to hold with Mazzini that there is still a step higher to be taken, when the wage-servant will become the partner of his former employer, lord, owner?

I began this book by laying down the proposition that so long as land and capital are almost exclusively in the hands of the few, and labour remunerated by wages only, the improvement in the material condition of the working classes cannot be anything but slow. A Trade Union may secure for its members a rise in wages, but that does not mean that capital commands less interest, or land less rent: it may mean that the rise is “handed on,” is added to the cost of production, and to the price demanded for the article. If so, such rises are almost wholly futile. Railway-men get an advance and the freight of goods is put up, so that the cost of living is higher for all classes; then the colliers get a rise of wages, and the cost of coal is put up all round; the builders get a rise, and all the working classes have to pay more in rent. The process is almost the same as the competition of the

nations each to overtop the other in armaments. Fortunately it is not quite so futile as that: the argument requires certain qualifications. Especially we must note that sometimes the increase of wages leads to an immediate increase of personal efficiency, or to the employment of better machinery; in each of which cases there is no addition to the cost of production, and therefore the gain of one section of the workers is not the loss of the others. Still, the raising of wages does usually add to the cost. If, however, by giving men an interest in the profit of the business you can, as I have argued, suddenly raise their efficiency, then you make immediately possible a large addition to their total earnings which does not add to the cost; consequently does not raise the price; does not take away from the workers in general the whole, or greater part, of what it gives to those of one class. When we go further and capitalise that share of profit, the workers gain not only the lump sum of capital, but an annual share of that part of the produce which goes to remunerate capital. This, again, does not add to cost, for the cost is no greater when the workers own this share of capital than if some rich man had owned it. On the contrary, the



workers' accumulated profit is a real addition to the total supply of capital : it tends, therefore, to bring down the rate of interest, and that of itself tends to raise the rate of wages. Apart altogether from the effect on thrift, character and life, these are the economic reasons why profit-sharing and co-partnership may produce a much more rapid improvement in the position of the working classes than can possibly be got under the mere wages system.

In the last two generations there has been a great growth of the capital of the middle classes, largely through facilities for investment given by the Joint-Stock Companies Acts. Now almost every middle-class family has its few hundred, or few thousand, pounds of capital, invested in the industries of the country, and fructifying there, adding to the income of that family, and standing as a reserve between that family and misfortune. Already, through building societies, co-operative societies, and so forth, a considerable part of the working classes are accumulating capital also. I suggest that, in the next two generations, we shall see practically every working-class family of character and industry reaching a similar position, largely through

co-partnership arrangements in our great industries. When that time comes they, too, will have their few hundreds or even more of capital, fructifying in the industries of the country, adding to the income of the family, and standing as a reserve against the time of old age or misfortune. The possession of that capital by the working classes, and the changes that will accompany it—the shareholders' rights, the more efficient work, the more sympathetic control—will wholly change our industrial system. Already the co-partners in the South Metropolitan Gas Company own, on an average, £80 a-piece in the capital, which must mean that those who have been there since the system started twenty-three years ago average more than twice than sum. We may expect that when the system has been working twice as long, the capital of the workers will be several times as much. A man earning 31s. a week and receiving a profit-sharing bonus of  $7\frac{1}{2}$  % yearly, and accumulating that in an investment yielding 4 %, will have £336 at the end of thirty years, and £570 at the end of forty; and that is far from being the end of it: his providence is stimulated to the great benefit of his character and the increase of his well-

being. Suppose that process applied to our great public companies generally, and to a multitude of smaller businesses, will not a change be gradually wrought which, acting with other great forces of reform, will to a large extent do away with the old distinction I spoke of between owners and workers, and change capitalism into a form of co-operation ?

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